Alberta Legislature

Annual Report of the Auditor General 1986-87

Alberta Legislature

Office of the Auditor General

Mr. F.A. Stewart, M.L.A.
Chairman
Select Standing Committee
on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1987, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

Donald D. Salmon

C.A.
Auditor General

Edmonton, Alberta
January 15, 1988

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REPORT OF THE AUDITOR GENERAL OF ALBERTA

FOR THE YEAR ENDED

MARCH 31, 1987

SECTION 1

1.1 INTRODUCTION AND OVERALL ASSESSMENT

1.1.1 This report is issued pursuant to section 19 of the Auditor General Act. It is my second annual report to the Legislative Assembly of Alberta and the ninth annual report of the Office of the Auditor General.

Section 2 of the report outlines the audit activities undertaken for each government department and agency. In reporting on the work of my Office pursuant to section 19(1)(a) of the Act, I have included the significant audit findings and recommendations that were reported to management of the various entities. The action since taken or shortly to be taken in response to these recommendations will be reviewed during next year's audits. Those recommendations which are considered to be the most significant and which I feel particularly warrant the attention of the Legislative Assembly are numbered and shown in italic type.

Section 3 of the report explains the scope of the auditing carried out and the criteria that I use when deciding which audit observations and recommendations to report to the Legislative Assembly. It also contains a summary of the audit report reservations issued for 1986-87, and a brief commentary on the Province's operating results. Section 4 describes the responsibilities, audit approaches and organization of my Office.

Although this report is for the year ended March 31, 1987, some observations and recommendations are from audit work undertaken since that date. This is because much of the audit work that enabled me to report on the Province's financial administration and accountability during 1986-87 had to be performed during 1987-88.

Section 19 of the Auditor General Act prescribes the nature of the matters that must be included in this report, as well as those matters where discretion is allowed. Many of these are shortcomings and irregularities such as systems weaknesses, control deficiencies, non-compliance with legislation, and unsatisfactory accounting and reporting practices. This report, therefore, must be viewed as a report by exception and cannot form the basis for a balanced evaluation of the Province's financial administration.

Overall Assessment

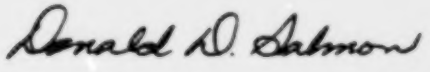
1.1.2 Section 2 of this report shows that relatively few of the over two hundred audits and special examinations conducted by my Office for the 1986-87 fiscal year resulted in findings or recommendations significant enough, in my opinion, to be brought to the attention of the Legislative Assembly. This speaks well for the general quality of the Province's financial administration. Based on the work of my Office, I am satisfied that, in all material respects, the Government has continued to account for the Province's revenues and expenditures in a

generally satisfactory manner. There is, however, scope for improvement in financial administration as evidenced by the audit findings and recommendations contained in this report.

Acknowledgements

1.1.3 My responsibilities, and those of my staff, can always be discharged more effectively with the ready co-operation of those whose affairs we audit. For this reason, I am pleased to acknowledge with gratitude the excellent co-operation extended to my staff by management and staff of departments and agencies.

Furthermore, pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office, my staff received all the information, reports and explanations that they required.



C.A.
Auditor General

Edmonton, Alberta
January 15, 1988

SECTION 2

2 AUDIT FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

2.1 INTRODUCTION

2.1.1 This section of the report outlines the 1986-87 audit activities undertaken for each Provincial department, agency and fund. At the back of this report is a complete index of all entities of which I am the auditor. It can be used to find references to individual entities in this report and in the public accounts.

2.1.2 The following are the recommendations that I particularly wish to bring to the attention of the Legislative Assembly:

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2.2 CONSOLIDATED FINANCIAL STATEMENTS OF THE PROVINCE

2.2.1 The Province's 1986-87 consolidated financial statements are published in section 1, volume 1 of the public accounts. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed in preparing them. Section 3.4 of this report contains commentary on the consolidation methods used, together with selected consolidated operating statistics.

I was able to report without reservation that the Province's consolidated financial statements are presented fairly for the year ended March 31, 1987. My report thereon is reproduced in section 3.3 of this report.

Most of the figures that make up the Province's consolidated statements are audited during the annual audits of the various departments, funds and agencies that are consolidated. Observations and recommendations arising from those audits are reported in the ensuing sections of this report. The following observations and recommendations arose out of the audit of the consolidation process and the form of the consolidated statements.

Pension liabilities – The Province continues to exclude from the calculation of its financial net worth (consolidated net assets), the effect of a major part of its liability for future pension obligations. At March 31, 1987 the Province's consolidated financial statements show consolidated net assets of $8.56 billion. If the full amount of the Province's pension obligations was accounted for as a liability at that date, the consolidated net assets would be reduced to less than two billion dollars.

These pension obligations have accumulated over the years on seven pension plans. Six of the plans are administered by the Province mainly for the benefit of its own employees and the employees of certain municipalities. The seventh plan operates under the Teachers' Retirement Fund Act and its benefits are guaranteed by the Province.

At March 1985, independent actuaries valued the obligations under the six plans at $6.44 billion. Deducting from this amount, the value of assets set aside in the Pension Fund to help meet pension liabilities, leaves an unrecorded pension liability at that date of $3.88 billion. The seventh plan, which is partially funded by its own assets, was actuarialy valued at August 1986. That valuation revealed a liability of $2.59 billion, an increase of more than $800 million over the liability at August 1983 when the plan was last valued. The actuary estimated that by March 1987, this liability would have increased to $2.75 billion.

Adding the March 1985 liability (which had probably increased by March 1987) for the six plans, to the March 1987 liability for the seventh plan, produces a total unrecorded liability of $6.63 billion.

The Government has adopted the practice of including as a liability in the Province's consolidated financial statements only the part of its pension obligations that are covered by assets set aside for that purpose. The unrecorded portion is referred to only in a footnote to the financial statements.

Successive Auditor General's reports have brought this concern to the attention of the Legislative Assembly. They have also included recommendations that the full amount of pension plan obligations be recorded as liabilities in the Province's financial statements, and that the amount of such liabilities be determined by having the actuaries perform interim valuations at year-ends when full valuations are not prepared.

The Government has consistently declined to adopt these recommendations. In a response to my 1985-86 recommendations, the Provincial Treasurer stated in a report to the Public Accounts Committee:

> "Financial statement disclosure of unfunded pension obligations is not the general practice of governments in Canada. The Government still considers that its current practice of disclosing the pension liability by way of a footnote to the financial statements is appropriate. The practice will continue to be reviewed as generally accepted accounting policies evolve in this area.
>
> The Government's policy of disclosing the Province's pension obligations as determined by full triennial actuarial valuations provides the users of the consolidated financial statements with sufficient information on the liability. Because of the underlying assumptions and estimates on which they are based, actuarial valuations are too imprecise to warrant the cost of obtaining annual interim valuations."

It is correct that the accounting treatment that I am recommending is not the general practice of governments in Canada. With regard to the evolution of generally accepted accounting principles, however, the Canadian Institute of Chartered Accountants (CICA) issued recommendations in 1986 for accounting for pension costs and obligations. These recommendations, which apply to profit-oriented entities - not governments, require employers to reflect in their financial statements all pension benefit costs and obligations accruing to employees. The Public Sector Accounting and Auditing Committee (PSAAC) of CICA is currently researching and developing pension accounting guidelines for governments.

In view of the increasing size of the Province's unrecorded pension liability and the potentially misleading effects of not recording it as a liability in the Province's financial statements, and because PSAAC may recommend a similar pension accounting treatment for governments, I included the following recommendation in the 1986-87 management letter to the Deputy Provincial Treasurer, Management and Control:

Recommendation No. 1

> *It is recommended that the Provincial Treasurer again reconsider reflecting the unrecorded liability arising from the various pension plans administered and/or guaranteed by the Province as a liability in the financial statements of the Province.*

In view of the Province's commitment to obtaining full triennial actuarial valuations, and the costs associated with obtaining more frequent valuations, I am not pursuing my previous recommendation that interim valuations be obtained at year-ends when full actuarial valuations are not obtained.

Agencies not consolidated – The Province's consolidated financial statements would provide Albertans with a more complete overview of the Province's overall financial affairs if they included the Provincially-owned universities, colleges, technical institutes and hospitals.

In my 1985-86 annual report (section 2.2.1), I recommended that in future, the Provincial Treasurer consider including these entities in the consolidated financial statements.

In a response to this recommendation, the Provincial Treasurer stated in a report to the Public Accounts Committee:

> "The exclusion of these agencies from the Government financial reporting entity is based on the principle that financial statements should present the economic substance of financial activities rather than legal or organizational form.
>
> The Government controls the amount of the annual grants to board- governed universities, colleges, technical institutes and hospitals but has no control over revenues they generate from other sources and, regardless of legal form, has no direct involvement in their management or administration and therefore does not control them in practice. The current accounting policy adopted with respect to these agencies is therefore appropriate."

The "economic substance" of the situation is that through the provision of funding and the ability to appoint Board members, the Government has the capacity to control the operations and policies of these entities. In addition, these entities are Provincial agencies which derive their powers from legislation. Since legislation authorizes the use of public funds, the Legislature has the right and responsibility to obtain an adequate accounting for their financial affairs. The essence of control is in the ability to control; choosing not to exercise control does not diminish control, nor the responsibility to be accountable. Including these entities in the Province's consolidated financial statements would not affect their operational autonomy, but it would recognize their accountability.

For this reason, it was again recommended in a management letter to the Deputy Provincial Treasurer, Management and Control, that in future the Provincially-owned universities, colleges, technical institutes and hospitals be included in the consolidated financial statements of the Province, perhaps on an equity accounting basis.

2.3 LEGISLATIVE ASSEMBLY

Of the matters reported to management at the conclusion of the audits of the Department's various offices, none warrant inclusion in this report.

2.3.1 **Legislative Assembly Office** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the system designed to provide the Office's managers with the information needed to make informed decisions about budgetary expenditures.
- An examination of the system used by the Office to safeguard and account for fixed assets.

2.3.2 **Office of the Auditor General** – year ended March 31, 1987

The financial statement of the Office of the Auditor General for the year ended March 31, 1987 was audited by a firm of Chartered Accountants appointed by the Select Standing Committee on Legislative Offices. The financial statement is published on page 28.19 of Volume II of the public accounts of the Province.

2.3.3 **Office of the Chief Electoral Officer** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the system and procedures used by the Office to administer general and special enumerations, general elections and by-elections, and plebiscites.

- An examination of the system used by the Office to monitor financial contributions, and compliance with the related regulations, to registered political parties, and candidates.

2.3.4 **Office of the Ombudsman** – year ended March 31, 1987

A financial audit was completed.

2.4 ADVANCED EDUCATION

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.4.1 **Department of Advanced Education** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the Department's control over the use of remote data entry terminals, following conversion to the Government's new payment and general ledger accounting system, and its system and procedures to process and account for grants, payroll, and supplies and services expenditures.

- An examination of the methods used by the Department to accumulate and analyze information relating to full-time equivalent students in certain higher educational institutions.

- An examination of the adequacy of systems used by the Department to verify the eligibility and valuation of applications by educational institutions for matching grants under the Advanced Education Endowment and Incentive Fund.

- An examination of the adequacy of the system of internal control over the operations of the Alberta Vocational Centre, Calgary, including the system to measure the achievement of one of its main objectives, the identification and development of needed programs.

- In connection with cost-sharing with the Government of Canada, audit procedures necessary to support the expression of audit opinions on the following:

  - Statements of Expenditures for the Vocational Rehabilitation of Disabled Persons, for the years ended March 31, 1984, 1985 and 1986.

  - Statements of Claim for Language Textbooks for the years ended March 31, 1986 and 1987.

  - Statements of Claim for Citizenship and Language Instruction for the years ended March 31, 1986 and 1987.

  - National Training Agreement Certification of Costs for the year ended March 31, 1985.

Observations from Extended Audit Work

Full-time equivalent students – Certain institutions are experiencing difficulties reporting enrolment data in accordance with the guidelines established by the Department of Advanced Education.

Institutions normally report enrolment data in terms of full-time equivalent (FTE) students. This type of reporting provides a degree of consistency to annual enrolment reporting, since institutions offer courses extending over widely varying time periods, that are classed as credit or non-credit, and are included in regular programs or part-time programs. Reported FTEs are no longer used in the determination of basic funding of institutions but do form an important element in financial planning and analysis within the Department of Advanced Education. They are also useful in providing public information of institution activities.

Public colleges are expected to report FTE figures calculated in accordance with the Public Colleges Enrolment Reporting Manual (2nd Edition) issued in October 1977. During 1986-87, two of the eleven public colleges' reports were based on unique definitions of FTE, due to the nature of their information systems. Furthermore, the 1977 reporting manual is deficient as regards the calculation and reporting of apprenticeship enrolment, continuing education and non-credit courses.

The quality of FTE information could be improved if all public colleges and technical institutes were required to calculate FTE enrolments on a consistent basis that facilitates meaningful comparison of enrolments with other post-secondary education institutions. Also, the 1977 reporting manual needs to be updated and revised to provide clear and concise instructions for defining and calculating full time equivalent students.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 2

> *It is recommended that the Department of Advanced Education establish and maintain a reporting system to produce reliable and consistent information on enrolments in the public colleges and technical institutes.*

I acknowledge that enrolment reporting and the calculation of FTEs is presently under review by the Department. The continuing development of the Common Information System for post-secondary institutions is expected to impact significantly on future enrolment reports. The Audit Office will continue to examine the nature of, and progress with, enrolment reporting changes.

Follow-up of Previous Annual Report Recommendations

Investment of surplus funds – In my 1985-86 annual report (section 2.4.1), I commented on the desirability of allowing all Provincial agencies to invest their temporarily surplus funds in the Province's Consolidated Cash Investment Trust Fund (CCITF). Similar comments were expressed in the four previous Auditor General's annual reports to the Legislative Assembly, chiefly in relation to the Province's public colleges and technical institutes, which are precluded by their enabling statutes from investing in the CCITF.

The 1984-85 and 1985-86 annual reports recommended that legislative changes be effected to allow appropriate Provincial agencies the option of investing in the CCITF. The Government agreed with the recommendation and indicated that legislative changes were under review.

However, the Advanced Education Statutes Amendment Act, 1987, assented to in June 1987, which amended the Colleges Act and the Technical Institutes Act did not include the authority to allow these institutions to invest in the CCITF. It is regrettable that a recommendation initially proposed in the Auditor General's annual report for 1979-80 and agreed to by the Government in October 1984, is still not implemented.

In a management letter to the Deputy Minister at the conclusion of the 1986-87 audit, I again made the following recommendation:

Recommendation No. 3

It is recommended that the Minister of Advanced Education seek amendments to the Colleges Act and the Technical Institutes Act to allow public colleges and technical institutes to invest in the Consolidated Cash Investment Trust Fund.

Grants to higher education institutions – In my 1985-86 annual report (section 2.4.1), I recommended that the Department of Advanced Education request institutions to submit grant applications appropriately analyzed to show the cost of the programs and services that the grants will fund.

The Department presently establishes base operating grants to be paid to institutions by adjusting the previous year's grants for changes resulting from such matters as enrolment, inflation, new programs approved by the Department and programs cancelled by the institutions.

The recommendation that grants budgeted and paid to institutions be related directly to the cost of programs and services provided is intended to assist the Department in strengthening its financial control systems.

In a response to my 1985-86 recommendation, the Provincial Treasurer, in a report to the Public Accounts Committee on behalf of the Government, stated that:

> "Board governed institutions implement programs of studies deemed appropriate with the block funding provided. When new programs are approved, the funding is specifically identified in the approval and is added to the base budget. Similarly, should a program be cancelled, the funding is identified and can be removed from the base budget for subsequent years. This process has proven effective and does not interfere unduly with the operation of the individual institutions."

This response confirms and, in fact, reinforces the autonomy of board governed institutions regarding ongoing programs of study and decisions to cancel existing programs. The role of the Department is thus confined to approving new programs and removing identified funding after programs have been cancelled by institutions.

The Audit Office's first examination of the role of the Department in co-ordinating and funding higher education was carried out in 1982-83. Further examinations were carried out in 1985-86 and 1986-87. The latest examination concluded that the Department does not co-ordinate programs, but rather exercises control only over the establishment of most new programs, and monitors Provincial education needs and priorities through various informal procedures.

The annual Government estimates and the annual report of the Department, indicate that the Department is responsible for "... co-ordination of higher and further education programs ...". This responsibility seems appropriate for the Department, since autonomous decisions by the 19 institutions that offer programs of post-secondary study (4 universities; 11 public colleges; 3 technical institutes and the Banff Centre) could prove to be incompatible. In practice, boards of governors of the various institutions are empowered to provide programs, subject to the approval of the Minister of Advanced Education.

It appears that the boards have taken the position, and the Department has concurred, that once programs are established, their continuance is entirely at the discretion of the boards. This position does not allow the Department to co-ordinate ongoing programs to meet the changing educational needs or economic conditions in the Province.

In a management letter to the Deputy Minister of Advanced Education at the conclusion of the 1986-87 audit, it was recommended that the Department, in conjunction with the members of the advanced education community, clearly define responsibilities for the co-ordination of post-secondary education within the Province. It was also recommended that the Department enhance its system for co-ordinating post-secondary programs in two ways. This could be done by expanding the system to include reviewing the nature and cost of existing programs, and also by formally identifying education needs and priorities for comparison with programs offered.

These and previous recommendations have been rejected by the Department, and the Government appears to have confirmed that the Department's role in co-ordinating the funding of higher and further education programs is appropriately restricted to approving the funding of new programs identified by the higher education institutions.

In view of this position, there appears to be little potential benefit in repeating the recommendations in a way that seeks a formal response from the Government.

Financial reserves – In my 1985-86 annual report (section 2.4.1), I commented on the dramatic increases in the amounts of money set aside in financial reserves by the Provincially-owned higher education institutions.

In response to my observations, the Provincial Treasurer, on behalf of the Government, indicated that "a set of guidelines to cover the establishment and utilization of financial reserves by higher education institutions is under review." Although draft guidelines were prepared by the Department of Advanced Education in October of 1986, they have not been finalized and issued to institutions. In the course of the 1986-87 audits, several institutions expressed concern about the lack of clear direction in this area.

At March 1987, financial reserves of the universities and the Banff Centre totalled approximately $59 million (1986 $64 million). The public colleges and technical institutes financial reserves at June 1987, totalled approximately $26 million (1986 $21 million). This money came mainly from unused annual grants and is available for use at the discretion of the boards of the various institutions.

In view of the significance of financial reserve amounts and the need for the Minister of Advanced Education to be aware of the uses of such reserves by institutions, I included the following recommendation in my 1986-87 management letter to the Deputy Minister:

Recommendation No. 4

> *It is recommended that the Department of Advanced Education finalize procedures and guidelines for acquiring the information needed to facilitate the concurrence of the Minister to the establishment and utilization of financial reserves by higher education institutions.*

Accounting and reporting by higher education institutions – In my 1985-86 annual report (section 2.4.1), I commented on my continuing concern for the number of observations and recommendations arising from audits of the Province's public colleges and technical institutes.

In 1979-80 and for several years thereafter, the Auditor General reported to the Legislative Assembly on a variety of both pervasive and individual concerns arising from the annual audits of the colleges. Many of those concerns have been addressed since then by individual colleges,

though some still remain. A continuing area of concern has been a lack of consistency in the way that the colleges and technical institutes account for and report their financial activities. Some have a history of employing, at times, unacceptable accounting policies in preparing their annual financial statements. In some instances, this resulted in qualified audit reports on the financial statements. Some of the other accounting policies used by the colleges, while technically acceptable, are not ideal, nor are they consistently used from college to college.

Concerns and recommendations have been considered by the colleges and technical institutes and, sometimes with the assistance of the Audit Office, changes have been adopted to improve accounting and financial controls.

In the absence of central guidance, the institutions appear to have progressed as far as they can towards achieving consistency in their accounting and financial control procedures. I believe that the Department of Advanced Education should provide the required central guidance and in my previous report I recommended that the Minister of Advanced Education initiate, in conjunction with the Department of Advanced Education, the public colleges and the technical institutes, the development of formal standards and guidelines to promote more effective internal control and accounting systems and more consistent financial reporting. In a report to the Public Accounts Committee, the Government rejected this recommendation.

In my opinion, the Department, as the major source of funding to the institutions and a major user of the information in their financial statements, should provide central guidance to resolve reporting anomalies and inconsistencies.

In addition to its own uses of financial information of the institutions, the Department disseminates this information through the medium of its annual Statistical Report. The summary tables of financial and statistical data in the report are presented in a manner that implies comparability that often does not exist.

The management letter to the Deputy Minister of Advanced Education at the conclusion of the 1986-87 audit indicated that the Audit Office intends to continue to seek improvement in the consistency of the institutions' financial statement reporting. Accordingly, I have not repeated my recommendation in a way that seeks a formal response from the Government.

2.4.2 **Students Finance Board** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- A further examination of the adequacy of the Board's systems to verify the accuracy of student loan applications.

- A further examination of the Board's data processing contingency plans.

- Examination of the systems of internal control over the payment of awards to students.

Observations from Extended Audit Work

Verification of loan application data – The Board's verification procedures provide only limited assurance that data submitted by students on eligibility, cost and personal resources is complete and accurate.

The examination of post-payment verification procedures for 1984-85, the most recent application year completed, indicated that only certain data in a non-statistical sample selected mainly from high-risk award categories, was verified. These procedures do not permit the Board to draw valid conclusions about all awards.

In a management letter to the Chairman at the conclusion of the audit, it was recommended that the Board develop a comprehensive verification plan to include statistical selection and evaluation of a representative sample of awards, verification of all data on selected awards, and formal review of the results of the verification.

Data processing contingency plans – The Board does not have adequate computer systems documentation and has not finalized contingency plans and back-up procedures for data processing.

The Audit Office was informed following the previous audit that systems and program documentation would be completed. Satisfactory completion has not occurred. A computer-related disaster would severely affect the Board's operations. There is a need, therefore, for alternative processing facilities to be available.

In a management letter to the Chairman, it was again recommended that the Board prepare a formal data processing disaster contingency plan and complete computer systems and program documentation.

2.4.3 Financial audits of the following were also completed for the year ended March 31, 1987:

Advanced Education Endowment Fund
John Joseph Collett Memorial Scholarship Fund
Students Loan Fund

2.4.4 UNIVERSITIES, THE BANFF CENTRE AND RELATED ENTITIES

The Provincially-owned universities, the Banff Centre and related entities operate under the authority of the Universities Act and the Banff Centre Act respectively. The financial statements of these Provincial agencies are not published in the public accounts, nor are they included in the Province's consolidated financial statements. The Auditor General has commented on this in section 2.2.1 of this report. The Minister of Advanced Education, who administers the aforementioned Acts, tables the audited financial statements of these agencies each year in the Legislative Assembly.

2.4.5 **Athabasca University** – year ended March 31, 1987

The annual financial audit was extended to include an examination of systems for controlling and safeguarding fixed assets, and an examination of the system of internal control at the Northern Regional Office.

Observations from Extended Audit Work

The University's systems for controlling and safeguarding fixed assets are inadequate.

The following deficiencies exist:

- The general ledger and the fixed asset record system have not been reconciled.
- The fixed asset record system is inaccurate because some items of a non-capital nature are included, some capital items are excluded and in some instances costs other than actual are used.
- Records are incomplete because some serial numbers and location descriptions are missing or are not current and certain assets, specifically works of art, do not have University property tags attached.

- The system designed to control moveable offsite assets is inadequate because the records do not reflect their location and custodian.

- Miscellaneous items of low cost purchased from capital funds have been recorded as fixed assets. Capitalizing small value items can unduly complicate fixed asset control.

In a management letter to the University's Vice-President, Finance and Administration at the conclusion of the audit, it was recommended that a high priority be assigned to finalizing asset control procedures in order to re[illegible]dy the noted deficiencies and to effect adequate control. It is understood that the University has begun to develop fixed asset control procedures which will address these concerns.

2.4.6 **The University of Calgary** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the adequacy of internal controls in the University's administrative computer system.

Follow-up of Previous Annual Report Recommendations

In my 1985-86 annual report (section 2.4.6), I expressed concern as to the appropriateness of the method used to account for analytical services to outside users. I recommended that the University establish appropriate accounting policies to be followed by all departments that provide such services.

I am pleased to report that the policies and procedures established by the University in response to my recommendation and reviewed during the 1986-87 audit were found to be satisfactory.

Observations from Extended Audit Work

Computer recovery plan – The University does not have a formal electronic data processing (EDP) disaster recovery plan, and there has been no clear assignment of responsibility for recovery procedures.

The University utilizes extensively the services of the administrative computing centre. In the event of a disaster in the administrative computing centre, significant disruption to the administration of the University can be expected. In addition, the Controller's office is located directly above the computer centre and any problem could adversely impact both areas simultaneously.

In a management letter to the Vice-President (Finance and Services) at the conclusion of the audit, it was recommended that responsibility for disaster recovery be clearly assigned and a formal recovery plan be developed, documented and tested.

Strategic planning – The acquisition of electronic data processing resources is not integrated with the University's long-range strategic plan.

The University's EDP planning process focuses on the short-term, annual cycle covered by the current budget period. Thus, the University is imposing a short-term planning process on inherently long-term planning issues. In addition, most members of senior management are not involved in planning administrative computing services.

In the management letter, it was suggested that the University would benefit from a formalized long-range strategic EDP planning process.

Systems development and acquisition – The University's systems development process does not use comprehensive, standardized control procedures.

The large investment of time and money required to develop major computer systems necessitates careful project management to ensure that scarce resources are used efficiently to produce applications which meet the users' needs. Control over the development or acquisition of new software is enhanced when comprehensive, standardized procedures are used, including formal cost benefit analyses, ongoing cost and progress reporting and post- implementation reviews of project effectiveness. Another effective control is to hold users accountable for the cost of purchased and internally-developed software, as well as for the ongoing use of EDP resources. The University's system development and acquisition process is not controlled in a formal manner using these techniques.

In the management letter, it was suggested that the University would benefit from a more formalized control process for computer system development.

System security – The University does not have a comprehensive, consistently applied security process to control access to the administrative computer system.

The University's administrative computing system has grown to service some 88 departments with over 780 terminals. The number of different application programs available on the system has also increased significantly. With this growth in size and complexity, there has been a corresponding increase in the level of user dependence upon the system and the sensitivity of data in the computer. Despite this increase in sensitivity, no individual or group has assumed overall responsibility for system security, and responsibility for the custody of data has been assigned only informally to user departments. There has also been no compensating improvement in the basic security software which controls initial user access to the system.

The major risk is that unauthorized individuals, including employees, could obtain access to sensitive elements of the system, permitting them to alter, copy or delete data, possibly without detection.

In the management letter, it was recommended that the University conduct a detailed EDP Security Review to assess the effectiveness of the existing access controls. It was also recommended that responsibility for overall system security be clearly assigned to an individual with no day-to-day operating or programming responsibility.

2.4.7 **The University of Alberta** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendations

In my 1985-86 annual report (section 2.4.5), I reported that the University's Capital Equipment Advisory Committee was reviewing the procedures used to control and account for capital equipment. I recommended that the Committee continue with its efforts to improve the accuracy of the accounting and equipment records, and release its recommendations in time for the related problems to be resolved prior to March 31, 1987. I also recommended that the Comptroller's Office obtain reliable cost estimates for equipment disposals to avoid misstatement of asset values.

I am pleased to report that a program has been established to implement the Committee's recommendations. In addition, a soon to be released Internal Audit report is expected to include recommendations to improve the accuracy of the equipment inventory. In a management letter to the University's Vice-President (Administration) at the conclusion of the 1986-87 annual audit, it was recommended that the Internal Audit report be considered before proceeding further with the program. Cost estimates for equipment disposals in 1986-87 were appropriate and adjustments were made to correct previous errors.

Observations from Financial Audit Work

The University did not make certain claims for recovery of research costs within the allowed time period and has not completed timely reconciliations of the payroll system to the general ledger.

Claims for research costs – Under some grant agreements, the University can recover research costs from the grantor only after the costs are incurred. The annual audit revealed an instance where approximately $195,000 was not claimed within the allowed time period with the result that the funding lapsed. Delays in making claims unnecessarily expose the University to the risk of loss.

In a management letter at the conclusion of the audit, it was recommended that the University Comptroller's Office establish monitoring procedures to ensure that such claims are not delayed. I understand that the grantor has since agreed to pay the delayed claims and procedures have now been changed to minimize the risk of delayed claims in future.

Payroll system reconciliations – In January 1987 the University implemented a new payroll system. Information from the payroll system is incorporated in the general ledger from which the University's financial statements are prepared. It is critical therefore that the general ledger be reconciled to the payroll system. At the time of the annual audit there was a substantial unreconciled difference.

In a management letter at the conclusion of the annual audit, it was recommended that the Comptroller's Office take action to correct problems associated with the reconciliation process. I understand that the payroll system and the general ledger are now being reconciled promptly and that no significant errors were discovered in bringing the process up-to-date.

2.4.8 **Alberta Laser Institute** – year ended March 31, 1987
Alberta Telecommunications Research Centre – period ended March 31, 1987
Centre for Frontier Engineering Research Institute – year ended March 31, 1987
The Alberta Microelectronic Centre – year ended March 31, 1987

These four entities, for which financial audits were completed, are wholly-owned not-for-profit subsidiary companies of The University of Alberta.

Observations from Financial Audit Work

There are weaknesses in internal control in all four companies relating to the lack of segregation of incompatible functions.

Although each company has a small number of staff and the opportunity to segregate incompatible duties is limited, the Audit Office believes that management could take steps to improve segregation of duties and increase the amount of management review. In a management letter to the Senior Officers of these companies at the conclusion of the annual audits, it was recommended that management attempt to increase the level of segregation of incompatible functions, especially with respect to cash handling and recording, and increase the level of management review. Segregation of incompatible functions can provide protection against the possibility that errors might be overlooked and also increases the likelihood of detecting irregularities.

2.4.9 **Chembiomed Ltd.** – year ended March 31, 1987

Observations from Financial Audit Work

The Company did not obtain product liability insurance coverage during the year ended March 31, 1987. Due to the nature of the Company's operations and the potential magnitude of any claims against the Company, the Audit Office considers that such insurance coverage is essential. In a management letter to the Company's President at the conclusion of the audit, it was recommended that appropriate insurance coverage be obtained as soon as possible. Product liability insurance has now been obtained, but it does not provide coverage for the year ended March 31, 1987.

2.4.10 **Hydrocarbon Research Centre** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.4.9), I recommended that the Centre, in conjunction with the Department of Energy, resolve existing uncertainties and agree on the amount, if any, that the Centre owed to the Department.

I am pleased to report that agreement was reached and the amount owing was paid.

2.4.11 **The Banff Centre for Continuing Education** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.4.7), I recommended that the Centre's School of Fine Arts develop and establish appropriate standards and procedures for manpower utilization, planning, budgeting and costing of productions. I also recommended that it develop systems to determine the optimum allocation of time between formal instruction and work on productions.

I am pleased to report that a review of progress during the 1986-87 audit indicated that, except for the time allocation matter, adequate steps had been taken to address my recommendations. The Centre considers that a stringent time allocation process would not allow the flexibility necessary to meet the needs of individual classes. Because adequate progress has been made by the Centre, my recommendations are not repeated.

2.4.12 Financial audits of the following for the year ended March 31, 1987 were also completed:

The Arctic Institute of North America
The University of Lethbridge

2.4.13 PUBLIC COLLEGES

The Provincially-owned public colleges operate under the authority of the Colleges Act. Although these colleges are Provincial agencies, their financial statements are not published in the public accounts, nor are they included in the Province's consolidated financial statements. The Auditor General has commented on this in section 2.2.1 of this report. The Minister of Advanced Education, who administers the Colleges Act, tables the audited financial statements of the Colleges each year in the Legislative Assembly.

The annual financial audits of the eleven public colleges were extended to include the following:

- An examination of the systems used to control and safeguard fixed assets.
- An examination of the systems used to maximize the rate of return on cash balances.
- An examination of the systems used to control and account for travel and entertainment expenses.

2.4.14 **Alberta College of Art** — *year ended June 30, 1987*

Observations from Extended Audit Work

Fixed asset systems — Accounting and control systems for fixed assets are deficient.

There is no detailed fixed asset register and the records available do not accurately reflect the assets held by the College. Furthermore, a number of items on the listing of assets transferred to the College from the Southern Alberta Institute of Technology cannot be located.

In a management letter to the Chairman of the Board of Governors at the conclusion of the audit, it was recommended that the College update its fixed asset records by conducting a physical inspection of all fixed assets, and by recording locations and descriptions. Asset additions and disposals should be accurately recorded and assets should be tagged for control purposes.

Expense claims — Control of employees' expense claims is not in accordance with College policy.

On occasion, employees' expenses are reimbursed through petty cash rather than on the basis of expense claims submitted through the normal payment of accounts systems.

In a management letter to the Chairman at the conclusion of the audit, it was recommended that the reimbursement of expense claims be made by cheque and be subjected to the same controls as other College payments.

2.4.15 **Fairview College** — year ended June 30, 1987

Observations from Extended Audit Work

The systems used by the College to control and account for travelling and entertaining expenses are deficient.

Expense claims — The following are among the deficiencies in the systems used to process and control expense claims:

- Expense claims for personal expenses, cash advances and interest on credit card balances are paid by the College and incorrectly charged to travel and entertainment expenses.
- Repayments of personal expenses or cash advances are credited to travel and entertainment expenses. It is impossible to determine from the accounts whether all personal expenses and cash advances are properly accounted for because accounts receivable records are not maintained for employees' personal expenses.

- The reason for incurring travel and entertainment expenses is not always evident from expense claims. Expense claim details do not always match the support document details. For example, lodging expenses sometimes include meals, telephone calls and other incidentals.

- Out-of-town travel authorization forms are not prepared in all instances.

In a management letter to the College at the conclusion of the audit, it was recommended that the College Finance Office review all expense claims to determine whether they comply with College policies, and whether the purposes and nature of expenditures are evident from supporting documents and explanations provided on the claims. It was further recommended that all expense claim transactions be fully recorded and that the general ledger accounts accurately reflect the nature and purpose of transactions. Personal expenditures and any cash advances should be recorded as accounts receivable from employees.

Credit cards – College credit cards that were used during the 1986-87 fiscal year by up to fourteen staff members were not individually approved by the College Board, and expenditures charged to the cards were not adequately controlled and accounted for.

The College Finance Office does not maintain adequate records of transactions and outstanding balances for each credit card issued. Credit card statements are not received directly by the College, are not reconciled to expense vouchers and are not paid on a monthly basis, often resulting in the College having to pay interest charges.

In a management letter to the College at the conclusion of the audit, it was recommended that the College review the necessity for using credit cards. If it is decided that credit cards are needed in the ordinary course of business, then the College should determine, document and enforce its policy for the issue, use and control of credit cards. This policy should require Board authorization for all credit cards issued and restrict their use to business purposes. It should also require that the College Finance Office receive credit card statements directly, reconcile statements to expense vouchers and pay outstanding balances monthly to avoid interest charges.

Observations from Financial Audit Work

Deferred revenue – The College's treatment of annual enrolment growth grants as deferred revenue is inappropriate.

Annual enrolment growth grants due to their nature cannot be subject to an objective matching of revenue and expenditure. The total amount of such deferred revenue accumulated from the current and previous fiscal years was almost $284,000 at June 30, 1987.

In a management letter to the College following completion of the 1986-87 audit, it was recommended that annual enrolment growth grants be recorded as revenue in the year received.

2.4.16 **Grande Prairie Regional College** – year ended June 30, 1987

There are no observations to be brought to the attention of the Legislative Assembly.

2.4.17 **Grant MacEwan Community College** – year ended June 30, 1987

Observations from Extended Audit Work

Fixed asset records – The College's fixed asset accounting records need adjusting to correct known inaccuracies.

During the year ended June 1987, the College completed a physical verification of its fixed assets. The fixed asset register and the general ledger, however, were not adjusted to delete the costs of assets not located. In addition, the general ledger still contains the costs of assets which do not conform to the current capitalization criteria of the College. In a management letter to the President at the conclusion of the audit, it was recommended that the College adjust its fixed asset register and general ledger to reflect the results of the physical verification and changes in capitalization criteria. The College has indicated that the required adjustments have now been completed. The adjustments will be examined in the next audit.

Observations from Financial Audit Work

Deferred revenue – The College has not determined the final disposition of unexpended conditional grant funds totalling approximately $200,000.

Unexpended funds relating to conditional programs that are complete or inactive cannot be taken into revenue, or otherwise disposed of, without the concurrence of the Department of Advanced Education, from which the grants originated. It is understood that the required accounting reports for these conditional grants have been sent to the Department in the normal manner, but that the Department has not requested return of the unexpended funds, nor released them for alternative uses.

In a management letter to the President of the College at the conclusion of the audit, I made the following recommendation:

Recommendation No. 5

It is recommended that Grant MacEwan Community College in conjunction with the Department of Advanced Education determine the final disposition of unexpended conditional grant funds included in deferred revenue that relate to programs that are complete or inactive.

2.4.18 **Keyano College** – year ended June 30, 1987

In addition to the extended audit work referred to in section 2.4.13, an examination of internal controls in the food services area of the College was undertaken to determine why the controls had not been effective in preventing or discovering thefts by employees.

Observations from Extended Audit Work

Fixed asset records – During the 1985-86 audit, it was observed that the probability existed of an error rate of up to 10% in the valuation of certain fixed assets. The Audit Office provided the College with computer reports of certain asset categories and recommended that the College identify and correct any valuation errors. This was not done by the College during 1986-87. In a management letter to the Chairman of the Board of Governors at the conclusion of the audit, it was again recommended that the valuation of fixed assets be examined and identified errors corrected.

Controls to prevent and discover thefts — The examination of internal controls over food services activities indicated that some controls had been allowed to lapse or had been overridden

by food services managers, leading to the non-detection of employee thefts. Discussions with the new director of food services indicate that controls have now been reinstated and are being enforced to an acceptable level.

Observations from Financial Audit Work

There is scope for improving the way in which the College accounts for its financial reserves.

In common with many other public colleges, Keyano utilizes financial reserves by appropriating portions of fund balances for future purposes. There are deficiencies in the timing, accuracy and completeness of accounting entries relating to financial reserve transactions. In addition, over time the purpose of and approval for specific reserves has become unclear.

The Board of Governors of the College, which authorizes such reserves, may wish to periodically review reserves to determine their continued usefulness, and will require appropriate information about the reserves. In a management letter to the Chairman at the conclusion of the audit, it was recommended that the College maintain a summary of reserve purposes and transactions to enable the Board to determine if reserves are utilized as intended, properly approved and accounted for and in compliance with any guidelines that may be issued by the Minister of Advanced Education.

2.4.19 **Lakeland College** – year ended June 30, 1987

There are no observations to be brought to the attention of the Legislative Assembly.

2.4.20 **Lethbridge Community College** – year ended June 30, 1987

Observations from Financial Audit Work

There is scope for improving the way in which the College accounts for its financial reserves.

In common with many other public colleges, Lethbridge utilizes financial reserves by appropriating portions of fund balances for future purposes. The Board of Governors of the College implemented a policy of periodically reviewing reserves to determine their continued usefulness. In a management letter to the President at the conclusion of the audit, it was recommended that the College maintain a summary of reserve purposes and transactions to enable the Board to determine if reserves are utilized as intended, properly approved and accounted for and in compliance with any guidelines that may be issued by the Minister of Advanced Education.

2.4.21 **Medicine Hat College** – year ended June 30, 1986

Follow-up of Previous Annual Report Recommendation

My report on the financial statements of the College for the years ended June 30, 1984 and 1985 contained reservations of opinion because the statements had not been prepared in accordance with generally accepted accounting principles.

In a management letter to the College's President at the conclusion of the June 1985 audit, it was recommended that the College report the board-created restricted funds as reserves, report as revenue the interest earned on these funds, and report charges to these funds as expenditure. Transfers to and from the reserves should appear on the statement of revenue, expenditure and operating surplus after the surplus or deficit for the year has been determined. It was suggested that this form of financial reporting would disclose more appropriately the magnitude of college operations and the annual operating results.

I am pleased to report that the College has accepted and implemented this recommendation and, accordingly, a reservation of opinion on the financial statements for the year ended June 30, 1986 was unnecessary. The College's June 1987 audit was not complete as of the date of this report.

2.4.22 **Mount Royal College** – year ended June 30, 1987

Observations from Extended Audit Work

There is scope for improving the control of fixed assets.

Some asset acquisitions are capitalized and included in the furnishings and equipment sub-ledger, even though they do not meet the College's capitalization criteria. Also, not all furnishings and equipment acquired from non-capital funds are reflected in the sub-ledger or tagged for control purposes.

In a management letter to the President of the College at the conclusion of the audit, it was recommended that the College adhere to its capitalization policy and review the furnishings and equipment sub-ledger and remove all assets not meeting that policy. It was also recommended that the College implement procedures to provide for the proper recording and tagging of all furnishings and equipment, regardless of the source of funding.

2.4.23 **Olds College** – year ended June 30, 1986

Observations from Financial Audit Work

The College needs to improve controls over cash and the recording of revenue.

The College generates a significant amount of revenue from sales of farm products in addition to revenue from rentals and bookstore sales. The system for invoicing and recording sales and controlling cash receipts is deficient because the invoice file is not numerically controlled and invoices are not always matched to cash receipts. Also, cash receipts are not promptly deposited, thereby increasing the possibility of unrecorded sales or loss of funds.

Bank reconciliations normally provide additional control over cash. The College, however, does not prepare monthly bank reconciliations. Thus, the possibility is increased of errors or irregularities remaining undetected.

In a management letter to the College's President at the conclusion of the June 1986 audit, it was recommended that the College control the issue and recording of sales invoices and deposit all cash receipts promptly in the bank. It was also recommended that the College reconcile bank accounts monthly and have the reconciliations reviewed and approved by Management.

The College's June 1987 audit was not complete as of the date of this report.

2.4.24 **Red Deer College** – year ended June 30, 1987

Observations from Extended Audit Work

The College's fixed asset control systems are deficient.

Assets are not tagged as property of the College, asset descriptions in the fixed asset listing are not adequate for identification purposes and the records are not always adjusted to reflect disposals.

In a management letter to the President at the conclusion of the audit, it was recommended that the College expedite its planned identification program for fixed assets and reinforce instructions concerning the preparation of asset disposal forms.

2.4.25 TECHNICAL INSTITUTES

The Northern Alberta Institute of Technology, the Southern Alberta Institute of Technology and the Westerra Institute of Technology all operate under the Technical Institutes Act. Although they are Provincial agencies, their financial statements are not published in the public accounts, nor are they included in the Province's consolidated financial statements. The Auditor General has commented on this in section 2.2.1 of this report. The Minister of Advanced Education, who administers the Technical Institutes Act, tables the audited financial statements of the institutes each year in the Legislative Assembly.

The annual financial audits of the three technical institutes were extended to include the following:

- An examination of systems used to control and safeguard fixed assets.
- An examination of the systems used to maximize the rate of return on cash balances.
- An examination of the systems used to control and account for travel and entertainment expenses.

2.4.26 **Northern Alberta Institute of Technology (NAIT)** – year ended June 30, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.4.21), I recommended that the Institute prepare a comprehensive annual plan and refine the central costing process. I indicated that development and refinement of systems will take a number of years and that I will continue to monitor progress.

The budget preparation cycle has been amended and additional indicators and trend information are now being used. As progress is satisfactory, my recommendation is not repeated.

2.4.27 **Southern Alberta Institute of Technology (SAIT)** – year ended June 30, 1987

In addition to the extended audit work referred to in section 2.4.25, the annual financial audit also included an examination of the systems used by SAIT to:

- schedule instructors, allocate classrooms, and calculate space utilization, and to
- provide diagnostic information for preventive plant maintenance.

Observations from Financial Audit Work

Inventories – SAIT needs to further improve its procedures for counting, valuing, and controlling year-end inventories.

In my 1985-86 annual report (section 2.4.22), I commented on problems that were experienced in establishing reliable inventory values at the June 1984, 1985 and 1986 fiscal year-ends. Following the conclusion of the June 1986 audit, I made several recommendations to Management designed to improve the efficiency and accuracy of future year-end inventory counts.

The physical inventory count at June 30, 1987 showed much improvement over the counts at previous fiscal year-ends. However, the review of variances between physical count figures and perpetual inventory records to detect unusual shrinkage or excessive count errors, including the conclusions drawn and the action taken, was not documented. The audit also revealed what appeared to be excessive inventory levels at some locations, possibly due to late purchases, that had not been reviewed by management.

In a management letter to the President of SAIT at the conclusion of the audit, it was recommended that documentation be prepared in future to evidence the process and conclusions drawn from the review of variances between physical count figures and perpetual inventory records, and procedures be established to monitor inventory levels and to discourage the accumulation of excess inventories.

Deferred revenue – SAIT has not decided how to account for a significant amount of unexpended conditional grant funding received from the Department of Advanced Education.

SAIT receives conditional grants from the Department to fund the development and implementation of new educational programs. Funding received but not spent, either because it is in excess of requirements or because the new program is inactive, cannot be treated as revenue by SAIT without the Department's concurrence.

It is understood that SAIT has notified the Department that it is holding these unexpended grant funds, but that the Department has not requested their return, nor released them for other purposes.

On the advice of the Audit Office these unexpended funds, which at June 1987 amounted to approximately $515,000, were included in accounts payable in SAIT's audited financial statements.

In a management letter to the President of SAIT at the conclusion of the audit, I made the following recommendation:

Recommendation No. 6

It is recommended that the Southern Alberta Institute of Technology in conjunction with the Department of Advanced Education determine the final disposition of the unexpended conditional grant funds that it holds in respect of programs that are complete or inactive.

2.4.28 **Westerra Institute of Technology** – years ended June 30, 1986 and 1987

Observations from Extended Audit Work

Expense accounts – The control exercised by the Institute over the claiming, authorizing and re-imbursing of travelling and entertaining expenses has been seriously deficient.

During the year ended June 30, 1987, a significant amount of travelling and entertaining expenses re-imbursed to senior officials of the institute was not supported by proper receipts, or was claimed solely on the basis of credit card slips. Over a 33 month period ended June 30, 1987, approximately $38,000 of the expenses claimed did not relate directly to Westerra and a further $3,000 appeared to be for activities unrelated to the business of the Institute. Some expense claims were approved for re-imbursement only by the claimant, and claims for approximately $4,000 were not supported by documentation that indicated or confirmed the nature of the expenses incurred.

Prior to the conclusion of the 1986-87 audit, the Minister of Advanced Education terminated the authority of the Board of Governors and appointed an Administrator for the Institute. The Audit Office discussed the full nature and extent of the above concerns with the Administrator and immediate corrective action was taken.

Fixed Assets – The Institute needs to improve its procedures for controlling and accounting for fixed assets. The following were among the control deficiencies observed during the 1986-87 annual audit:

- Not all assets are tagged or otherwise marked for identification purposes.
- There is no control list of assets which, although costing less than $500, are attractive and thus particularly susceptible of loss or theft.
- The fixed asset sub-ledger is not reconciled to the control accounts in the Institute's general ledger.
- The fixed asset sub-ledger does not contain adequate descriptive information to identify certain assets, particularly those that have been added to since acquisition or consist of more than one component.
- The fixed asset sub-ledger is not adjusted promptly to reflect location changes.

In a management letter to the Institute's Administrator at the conclusion of the 1986-87 audit, it was recommended that the Institute correct the observed deficiencies in its fixed asset records and control procedures. It was also recommended that a program of physical verifications be introduced to establish and maintain the accuracy of the Institute's financial and fixed asset records.

Observations from Financial Audit Work

Segregation of duties – The Institute needs to re-allocate the duties of certain of its staff, or establish alternative controls, to minimize the risk of errors and irregularities.

The Institute has a small number of administrative staff and the opportunity to segregate incompatible duties is limited. Segregation of duties has been further reduced by the downsizing of administrative functions. Segregation of incompatible functions can provide protection against the possibility that an error might be overlooked and also increases the likelihood of detection of irregularities.

In the management letter to the Institute's Administrator, I commented specifically on the areas of continuing education, bookstore and payroll where incompatible duties were concentrated and where effective supervisory review or other compensating controls were not in evidence, and made the following recommendation:

Recommendation No. 7

It is recommended that the Westerra Institutue of Technology review the allocation of duties to its administrative staff and reallocate them or provide additional management review to achieve sound internal control.

Payroll – The Institute needs to improve the control it exercises over its payroll function and, in particular, over bonuses approved and paid.

During the years ended June 1986 and 1987, the Institute paid bonuses to a number of its staff, apparently at the direction of the Institute's President. The Audit Office was unable to locate documentary evidence that the bonuses were based on formal performance appraisals, or that they were approved by the Board of Governors.

In addition, control over payroll records and payroll disbursements is weak. Changes to payroll information (pay increases, deductions, etc) are not independently reviewed for accuracy and authorization, and payroll cheques are distributed by the employee who prepares the payroll.

In a management letter to the Institute's Administrator at the conclusion of the 1986-87 audit, it was recommended that the adequacy of the control and segregation of duties within the Institute's payroll function be reviewed. It was also recommended that any future bonuses or other special payments be supported by documentary evidence of performance appraisals and Board of Governors approval.

2.5 AGRICULTURE

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.5.1 **Department of Agriculture** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the management and financial controls used to administer the National Tripartite Price Stabilization Program, the Beef Cattle and Sheep Program, and the Food Processing Development Centre in Leduc.

- An examination of the controls over revenue collection at the Regulatory Services Branch in Stettler.

Follow-up of Previous Annual Report Recommendations

Alberta Crow Benefit Offset Program (previously known as the Alberta Feed Grain Market Adjustment Program) – In my 1985-86 annual report (section 2.5.1), I reported that the Department was not obtaining adequate assurance that grants paid under this Program were based on actual consumption of grain by eligible livestock. Furthermore, there was considerable scope for improving the way that the Department obtained and evaluated the evidence needed to provide adequate assurance. I recommended that the Department specify the level of assurance it desires to achieve from field audits of grants paid under the Program, and upgrade the audit procedures used to provide this assurance.

The Program is a means of offsetting the distortion in feed grain prices which livestock producers face as a result of the current method of paying the federal "Crow benefit" directly to the railways. Under the Program, livestock producers received grants totalling $79 million during the 1986-87 fiscal year. The Department attempts to verify the accuracy of amounts claimed prior to disbursements being made. The primary assurance, however, that the amounts claimed are reasonable is obtained by subsequent field audits conducted by the Department.

In a report to the Public Accounts Committee on behalf of the Government, the Provincial Treasurer responded to my recommendation by stating that field inspections performed on a random selection of the total feed users registered under the Program, have been improved to include reconciliation of grain inventory with records of feed sales, feed consumption and grain inventories at the start of the Program.

A recent examination of the Department's field audit procedures showed that although there has been improvement, the following concerns still exist:

- A policy has been established that with effect from April 1, 1987, a percentage of feed users will be selected annually for audit. However the policy statement does not sufficiently define the basis upon which results will be evaluated to determine whether the desired assurance has been achieved.

- A major slippage has occurred in performing the planned audits for 1987-88. At October 1987, less than 5% of the plan had been completed, and the results of the audits had not been reported to senior management.

- The time periods covered in some field inspection reports and the method of or reason for selecting the time period is not clear. There is a lack of uniformity among inspectors as to the time periods covered.

- In practice, inspectors are performing livestock inventory reconciliations and relating livestock levels to grain consumption, but these activities are not being documented.

- Some field inspection reports do not document the evidence obtained to support the information contained in the reports.

In a management letter to the Deputy Minister of Agriculture at the conclusion of the audit, I made the following recommendation:

Recommendation No. 8

It is recommended that the Department of Agriculture continue to upgrade the audit procedures designed to provide assurance from field audits of grants under the Alberta Crow Benefit Offset Program, paying particular attention to ensuring adherence by inspectors to established field audit procedures.

Alberta Red Meat Interim Insurance Program – In my 1985-86 annual report (section 2.5.1), I commented on deficiencies in the procedures established to handle the payment of grants to livestock producers. Although this Program had ended, I recommended that, in future, when new grant programs are introduced, every effort be made to ensure that established procedures are followed and senior management is adequately involved in planning, defining and documenting procedures, and all staff are suitably trained and supervised.

Only one large grant program commenced in 1986-87 and an examination of the management and financial controls necessary and in place for the administration of this program formed part of the 1986-87 annual financial audit.

2.5.2 **Alberta Agricultural Development Corporation** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of Vegreville and Wetaskiwin's compliance with the Corporation's established procedures for branch offices.

- Audit procedures necessary to support my issuing an auditor's report on the separate financial statements of "Lambco, a division of Alberta Agricultural Development Corporation" for the year ended March 31, 1987.

2.5.3 **Alberta Hail and Crop Insurance Corporation** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the internal controls necessary and operating within the Corporation's payroll system.

- An audit of the Province's annual cost-sharing claim under the Canada-Alberta Crop Insurance Agreement.

– An audit of the Province's annual cost-sharing claim under the Canada-Alberta Waterfowl Crop Damage Compensation Program.

Follow-up of Previous Annual Report Recommendations

In my 1985-86 annual report (section 2.5.3), I referred to advances totalling $161.6 million from the General Revenue Fund to finance the amount by which crop insurance claims paid exceeded the crop insurance reserves of the Corporation. I pointed out that the advances appeared to be without legislative authority.

In 1985-86, two Special Warrants totalling $161.6 million were issued "to facilitate the payment of Crop Insurance claims". A subsequent Appropriation Act included the same amount within Agriculture Vote 7 "Hail and Crop Insurance Assistance". I obtained a legal opinion which indicated that the supply vote to which the $161.6 million was added was not, by itself, sufficient authority for making advances from the supply vote to the Corporation, in the absence of express statutory authority. Section 35(4) of the Hail and Crop Insurance Act provides authority for advances from the supply vote for specified purposes. Those purposes do not include providing for interim financing of claim payments in anticipation of receiving funds from the Government of Canada under the Canada-Alberta Crop Insurance Agreement. The later enactment of the Appropriation Act did not have the effect of providing that authority retroactively.

I recommended that the Corporation ensure that, in future, advances from the General Revenue Fund comply with the terms of the Hail and Crop Insurance Act. I suggested that if circumstances or limits imposed by that Act are considered unduly restrictive, consideration should be given to seeking a legislative amendment to modify the Act accordingly.

I understand that a legislative amendment will be recommended to resolve these issues.

In a management letter to the Corporation's General Manager at the conclusion of the 1986-87 annual audit, I repeated my previous recommendation in a modified form:

Recommendation No. 9

It is recommended that the Alberta Hail and Crop Insurance Corporation seek amendments to the Hail and Crop Insurance Act to enable the Corporation to receive additional advances in future when indemnity claims exceed the limits currently imposed by the Act.

2.5.4 Financial audits of the following were also completed:

Crop Reinsurance Fund of Alberta – year ended March 31, 1987
The Horned Cattle Purchases Act Trust Account – year ended March 31, 1987
Livestock Patrons' Assurance Fund – year ended March 31, 1987
Stray Animals Act Fund – year ended March 31, 1987
Alberta Agricultural Research Trust – year ended March 31, 1987
Alberta Dairy Control Board – year ended March 31, 1987
Irrigation Land Manager – for the fifteen months ended March 31, 1987
Agricultural Research Council of Alberta – year ended March 31, 1987
Alberta Terminals Ltd. – year ended July 31, 1986
Claude Gallinger Memorial Fund – year ended March 31, 1987
Pennington Memorial Scholarship Fund – year ended March 31, 1987
Wheat Board Money Trust Account – year ended March 31, 1987
National Tripartite Price Stabilization Program Trust Account – year ended March 31, 1987
Thomas Caryk Memorial Scholarship Fund – year ended March 31, 1987

2.6 ATTORNEY GENERAL

Of the matters reported to management, the observations and recommendation below are those which were selected for inclusion in this report.

2.6.1 **Department of the Attorney General** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the Department's cash and bank management systems and procedures. This included examining the control exercised by the Administration Division over receipts to and disbursements from the bank accounts used to administer court and branch office revenues and disbursements therefrom.

- An examination of the financial controls in place at the Stony Plain, St. Albert and Camrose provincial courts.

- An audit of the Province's claims for expenditures on the Crimes Compensation Program under a cost-sharing agreement with the Government of Canada.

Observations from Extended Audit Work

The Department needs to strengthen the control exercised by its Administration Division over receipts, disbursements and bank accounts.

The Department has a wide range of duties and responsibilities. These include administering civil legal services, providing legal advice to the Crown, providing legal services to all levels of courts in Alberta, and providing administrative support to more than 60 courts, offices and registries throughout the Province. The Department's Administration Division coordinates the accounting for fines levied and collected by courts (and their distribution to the appropriate jurisdictions), as well as revenues collected and paid out at other branch offices. The various bank accounts used to administer these activities are monitored by the Department's Administration Division.

The following were observed during the 1986-87 annual audit:

- Receipts received by the Department's Administration Division often lack the supporting documentation necessary to confirm that they are controlled and accounted for properly. When proper documentation does accompany the receipts, it is not checked or reviewed by the Division's Revenue Unit.

- No control log or similar record is maintained by the Division to monitor whether or not receipts are received regularly from all courts and branch offices.

- A considerable amount of revenue is coded as miscellaneous revenue, apparently because the Division's cash register lacks the capacity to record additional revenue categories. This miscellaneous revenue exceeds $2 million per year and much of it is inadequately classified in the Department's financial records. Reviews of the coding structure for this revenue are not performed regularly.

- Revenue reports produced by the Division's Financial Operations Unit do not contain the information needed to enable Senior Management to identify and monitor major sources of revenue.

In a management letter to the Deputy Attorney General at the conclusion of the audit, I made the following recommendation:

Recommendation No. 10

It is recommended that the Department of the Attorney General institute procedures that will improve Senior Management's ability to monitor the completeness and accuracy of the Department's revenues.

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.6.1), I commented on the need to improve the systems used by the Department to receive, hold and disburse trust monies on behalf of the Province's courts. In particular, I recommended that the Department reconcile the monthly records of collections and disbursements maintained on the Court Administration Project system, with the related bank accounts.

I am pleased to report that the 1986-87 annual audit revealed that reconciliations have been completed for the four years ended March 31, 1987. Only relatively minor accounting adjustments were required as a result of these reconciliations.

2.6.2 Financial audits of the following were also completed:

Public Trustee – year ended December 31, 1986
Chattel Security Registries Assurance Fund – year ended March 31, 1987
Registrar's Assurance Fund – year ended March 31, 1987
The Alberta General Insurance Company – year ended December 31, 1986
Land Titles Offices Trusts – year ended March 31, 1987
Maintenance Enforcement Trust – year ended March 31, 1987
Various Courts and Sheriffs' Offices Trusts – year ended March 31, 1987

2.7 CAREER DEVELOPMENT AND EMPLOYMENT

Of the matters reported to management, the observations and recommendation below are those which were selected for inclusion in this report.

2.7.1 **Department of Career Development and Employment** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the system and procedures used by the Department to control and process grant expenditures and related year-end liabilities.

Observations from Extended Audit Work

The Department needs to further improve the accuracy of its accounting for year-end accounts payable, particularly as they relate to expenditures on training and employment grant contracts.

In my 1985-86 annual report (section 2.19.1), I reported that the Department's accounts payable at March 31, 1986 and, therefore, expenditures for the fiscal year then ended, were both overstated by approximately $3 million. Similar inaccuracies had also occurred in the two previous years. I recommended that the Department ensure that in future annual expenditures and accounts payable relating to its Special Employment Program activities are reported accurately.

The 1986-87 annual audit revealed that the Department has made further efforts to improve its procedures for determining year-end accounts payable. Notwithstanding these efforts, however, accounts payable at March 31, 1987 in respect of training and employment grant contracts expenditures were overstated by approximately $1 million.

It is acknowledged that the nature of some of the Department's programs often makes the determination of accurate year-end accounts payable an onerous process. Even so, the Audit Office was able to demonstrate that accurate figures can be produced by evaluating the status of individual contracts at fiscal year-ends.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Recommendation No. 11

It is recommended that the Department of Career Development and Employment establish procedures designed to ensure that year-end accounts payable are reported accurately in the public accounts of the Province.

2.8 COMMUNITY AND OCCUPATIONAL HEALTH

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.8.1 **Department of Community and Occupational Health** – year ended March 31, 1987

Observations from Financial Audit Work

Federal cost-sharing claims for expenditures incurred by the Department of Community and Occupational Health have fallen seriously in arrears.

Under the Canada Assistance Plan (CAP) and Vocational Rehabilitation of Disabled Persons Agreements, certain expenditures are cost-shared with the Government of Canada. Until January 31, 1987, the Department of Social Services prepared and submitted to the Government of Canada cost-sharing claims for eligible expenses incurred by itself and by the Department of Community and Occupational Health. From February 1987 onwards, however, the Department of Social Services continued submitting its own claims but stopped claiming for costs incurred by the Department of Community and Occupational Health. The Department of Social Services maintains that the Department of Community and Occupational Health is responsible for submitting its own claims. The Department of Community and Occupational Health maintains that the Department of Social Services is responsible for submitting claims for both Departments.

As a result of this disagreement, claims totalling approximately $1.4 million had not been submitted and were not recorded as accounts receivable in the Public Accounts of the Province at March 31, 1987. By September 30, 1987, unsubmitted CAP Agreement claims for Department of Community and Occupational Health expenditures had accumulated to approximately $6 million.

The CAP Agreement is between Canada and Alberta. Specifically it is between the Minister of Health and Welfare Canada and the Alberta Minister of Social Services. Accordingly, it could be contended that the Department of Social Services is responsible for ensuring that claims are prepared and submitted. This contention, however, ignores the fact that the Department of Social Services does not have access to the records of the Department of Community and Occupational Health that are needed to prepare claims.

In a management letter to the Acting Deputy Minister of Community and Occupational Health at the conclusion of the audit, I made the following recommendation:

Recommendation No. 12

It is recommended that the Department of Community and Occupational Health and the Department of Social Services agree on which department is responsible for submitting claims for Department of Community and Occupational Health expenditures eligible for cost sharing under the Canada Assistance Plan Agreement, and submit delayed claims as soon as possible.

Follow-up of Previous Annual Report Recommendations

Alberta Aids to Daily Living/Extended Health Benefits – In my 1985-86 annual report (section 2.23.1), I reported that although the system used by the Department to administer these two programs was generally satisfactory, some of the information used to manage them was inadequate.

Only those individuals who hold valid registration certificates under the Alberta Health Care Insurance Premiums Act are entitled to receive benefits under these programs. The 1985-86 audit revealed, however, that most of the Department's computerized records for people who receive benefits did not contain AHCIP registration expiry dates. In addition, numerous payments had been made to beneficiaries whose records showed that their AHCIP registrations had expired. For a few, there were no AHCIP registration numbers at all.

These findings did not necessarily mean that ineligible people had received benefits. They did indicate, however, that the Department had paid benefits without ascertaining (since it lacked the necessary information) whether the recipients met the AHCIP eligibility requirement.

In my 1985-86 annual report I recommended that the Department maintain the accurate, complete and up-to-date information needed to determine the eligibility of beneficiaries under the two programs. During 1986-87, the Department began a review of the process used to validate the ongoing accuracy of its AHCIP registration information. Since information of this nature cannot be obtained from the Alberta Health Care Insurance Fund, alternative ways of obtaining it are being explored.

Since the problem has yet to be resolved, I again made the following recommendation to the Department's Deputy Minister in a management letter at the conclusion of the 1986-87 audit:

Recommendation No. 13

It is recommended that the Department of Community and Occupational Health maintain the information necessary to determine the eligibility of beneficiaries under the Alberta Aids to Daily Living Program and the Extended Health Benefits Program.

Year-end accounts payable – In my 1985-86 annual report (section 2.23.1), I commented on inconsistencies in the accounting policies used by the Department to record year-end accounts payable at March 1985 and 1986 for expenditures under the Alberta Aids to Daily Living and the Extended Health Benefits Programs.

While the effect of these inconsistent accounting policies on the reported expenditures was not significant, I was concerned as to the appropriateness of the reasons given for the changes by Departmental staff. Accordingly, I recommended that the Department adopt a consistent method for recording year-end liabilities for expenditures under the two programs.

I am pleased to report that the Department recorded these liabilities appropriately at March 31, 1987.

Provincial Laboratory of Public Health – In my 1985-86 annual report (section 2.23.1), I commented on the somewhat unusual legislative status of the Provincial Laboratory of Public Health. In fact there are two laboratory facilities, one in Edmonton and the other in Calgary. Whereas the Laboratory was established eighty years ago by an Order in Council, in 1986 it was operating much like a Provincial agency and was funded by grants from the Department of Community and Occupational Health. Despite this, it was not operating under the authority of a Provincial statute.

In my 1985-86 annual report I repeated the recommendation made in the previous two years that the Department resolve the uncertainties concerning the Laboratory's operations and legislative status.

Since then, the Department has entered into agreements with The University of Alberta and the Foothills Provincial General Hospital to operate respectively the Edmonton and Calgary laboratory facilities. Under the agreements, these two entities have assumed responsibility for operating and providing the services previously provided by the Provincial Laboratory of Public Health. This removes my previously reported concerns.

2.8.2 **Alberta Alcohol and Drug Abuse Commission** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the internal control exercised by the Commission over manpower, grants and contract services expenditures.

2.8.3 **The Workers' Compensation Board** – year ended December 31, 1986

The annual financial audit was extended to include the following:

- An examination of the organization and operation of the Board's Internal Audit Division.
- An examination of the policies and procedures established by the Board for designing, developing and implementing electronic data processing systems.
- An audit of a 'Statement of Apportionment of Administration and General Expenses' to support a cost-sharing claim under an agreement with the Government of Canada.

Observations from Financial Audit Work

There is considerable scope for making the Board's annual financial statements more informative.

For the year ended December 31, 1986, I was able to report without reservation that the Board's financial statements are presented fairly in accordance with the accounting policies described in a footnote to the statements. Nevertheless, the form and presentation of the statements could be improved.

The statements could be more informative if they included a separate statement of changes in financial position and if the balance sheet showed which assets and liabilities are current and which are long-term. In addition, some of the terminology used such as 'pension fund' and 'reserve' and 'accident fund balance' are capable of being musunderstood by readers who are not familiar with the Board's operations.

In a management letter to the Chairman of the Board at the conclusion of the audit, it was recommended that the Board reconsider the way that financial information is presented with a view to making its financial statements for the year ending December 31, 1987 more informative.

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.13.2), I commented on inadequacies in the methods used by the Board to design a new computer based assessment system. The system was withdrawn from service only six weeks after it was put into operation. I recommended that, in future, the Board ensure that the responsibilities of all departments involved with systems development be clearly defined, that changes in systems specifications be documented and monitored, and that systems components be tested in an integrated manner before implementation.

I am pleased to report that an examination of the Board's systems development activities during the December 31, 1986 annual audit revealed no further problems in this area.

2.8.4 A financial audit of Various Institutions Trust Accounts was also completed for the year ended March 31, 1987.

2.9 CONSUMER AND CORPORATE AFFAIRS

Of the matters reported to management at the conclusion of the following audits, none warrant inclusion in this report.

2.9.1 Financial audits of the following were completed for the fiscal year ended March 31, 1987:

Department of Consumer and Corporate Affairs
Collection Practices Act Trust
Debtors Assistance Trust
Insurance Companies Trust
Orderly Payment of Debts
Securities Act Trust

2.10 CULTURE AND MULTICULTURALISM

Of the matters reported to management, the observations below are those which were selected for inclusion in this report.

2.10.1 **Department of Culture and Multiculturalism** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the procedures established by the Department following conversion to the Province's new computer-based payment and general ledger accounting system.

Observations from Extended Audit Work

There are deficiencies in the procedures used by the Department to balance and review transactions processed by the Province's new computer-based payment and general ledger accounting system.

The Department began processing expenditures using the new system's remote data entry facility in September 1986. The 1986-87 audit revealed numerous deficiencies in the controls over the accounting transactions and balances processed by the system. For example, the procedures for reconciling inputs with outputs are not applied consistently, are not reviewed by

an accounting officer, and do not cover all transactions relating to the Department's operations. Although individually the observed deficiencies do not constitute major control weaknesses, collectively they increase significantly the risk that errors can occur and remain undetected.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department strengthen the balancing and review procedures over expenditures processed by the Province's payment and general ledger accounting system to provide Management with assurance that expenditures are recorded properly. The Department has since indicated that corrective action has been taken.

2.10.2 **Glenbow-Alberta Institute** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the system and procedures used by the Institute to safeguard and account for fixed assets.

- The issue of auditor's reports on the separate financial statements of the Glenbow Foundation and the Luxton Museum Ltd.

Observations from Financial Audit Work

The Auditor General's report on the financial statements of the Institute contained a reservation of opinion because, as explained in section 3.2.2 of this report, the Institute receives donation revenue which is not susceptible of audit verification.

2.10.3 Financial audits of the following were also completed:

Culture Revolving Fund – year ended March 31, 1987
The Alberta Art Foundation – year ended March 31, 1987
The Alberta Cultural Heritage Foundation – year ended March 31, 1987
The Alberta Foundation for the Literary Arts – year ended March 31, 1987
The Alberta Foundation for the Performing Arts – year ended March 31, 1987
The Alberta Historical Resources Foundation – year ended December 31, 1986
The Government House Foundation – year ended March 31, 1987
Fort Dunvegan Historical Society Trust Fund – year ended March 31, 1987
New Canadian Encyclopedia Publishing Ltd. Trust Fund – year ended March 31, 1987

2.11 ECONOMIC DEVELOPMENT AND TRADE

Of the matters reported to management at the conclusion of the following audits, none warrant inclusion in this report.

2.11.1 **Department of Economic Development and Trade** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the accounting and management controls used by the Department to administer the International Assistance Program.

2.11.2 Financial audits of the following were also completed:

Motion Picture Development Fund – year ended March 31, 1987
Alberta Motion Picture Development Corporation – year ended March 31, 1987
Alberta Opportunity Company – year ended March 31, 1987
Alberta Intermodal Services Ltd. – year ended December 31, 1986

2.12 EDUCATION

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.12.1 **Department of Education** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the process used by the Department to develop a new system for accumulating financial information on grants paid.

- An examination of the Department's Management and Finance Plan systems. This included examining the administrative and financial support systems for manpower and grant expenditures by the Lethbridge Regional Office, and the systems used to monitor debt retirement, school capital projects and the Building Quality Restoration Program.

Observations from Extended Audit Work

The Department needs to improve the way that it monitors and evaluates educational programs developed by school jurisdictions.

The Department has a Management and Finance Plan for managing education in Alberta. The Plan encompasses systems which accumulate information that is used to monitor and evaluate educational programs and related activities. The Plan recognizes the need for local accountability and flexibility, and the importance of evaluation as a basis for making decisions. Under the Plan the Department's Program Delivery Division, through a network of regional offices, reviews educational programs to determine whether they are adequate and comply with Departmental policies.

The scope of the Plan is impressive and generally it satisfies the Department's information needs. However, the work performed by regional offices, and the quality of the reports produced, varies considerably. This raises concerns as to the reliability of the information and conclusions reported, and detracts from its value for comparison purposes. Accordingly, in a management letter to the Deputy Minister, it was recommended that the Department's Program Delivery Division define more precisely the scope of the monitoring and evaluating performed by regional offices. Furthmore, it was recommended that the Program Delivery Division be responsible for summarizing reports and assessing the performance of regional offices.

2.12.2 **Education Revolving Fund** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.10.2), I commented on deficiencies in the ways that the Education Revolving Fund (sometimes called the Learning Resources Distributing Centre) manages its electronic data processing (EDP) resources and activities. I recommended that the

Department review the Fund's EDP activities and provide more direction for developing new EDP systems, and for operating existing systems.

I am pleased to report that the 1986-87 audit revealed that Senior Management is more actively involved in managing the Fund's EDP resources, and that efforts are continuing to resolve the previously reported deficiencies.

2.12.3 **School Foundation Program Fund** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.20.4), I commented on the need to improve the reliability of enrolment and transportation data used to calculate funding provided by the Fund. I recommended that the Department finalize the guidelines it was developing to verify this data, and modify the methods used to select the schools whose enrolment data is verified.

I am pleased to report that the guidelines were finalized and implemented during 1986-87. In addition, the method of selecting the school jurisdictions whose enrolment data is verified was modified satisfactorily.

During 1986-87, the Department paid claims totalling approximately $71 million from school jurisdictions to fund urban and rural transportation. As part of the verification program, twenty of these claims were selected for post-disbursement inspection by the Department. All twenty were found to contain errors, at least three of which had caused overpayments of approximately $129,000. At the conclusion of the audit, the Department was attempting to recover these amounts.

2.12.4 Financial audits of the following were also completed:

Expo '86 Student Travel Trust Fund – period ended March 31, 1987
Federal French Language Grants Fund – year ended March 31, 1987
School for the Deaf Donations – year ended March 31, 1987
School for the Deaf Pupils Trust – year ended March 31, 1987
Mildred Rowe Weston Estate Trust – year ended March 31, 1987
Northland School Division No. 61 – year ended August 31, 1986
Teachers' Retirement Fund – year ended August 31, 1986

2.13 ENERGY

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.13.1 **Department of Energy** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the system used by the Department to monitor the completeness and accuracy of the oil and gas production information it uses to calculate and verify oil and gas royalties, incentives and mineral taxes.

Observations from Financial Audit Work

Injection schemes – The Department lacks an adequate system for determining the royalty status of gas that is injected into, and subsequently recovered from, petroleum and natural gas wells.

Significant volumes of gas are injected into wells for various approved injection schemes. The purpose of these schemes is to enhance production and maintain proper production practices. Depending on the circumstances, some of the gas injected has had royalty paid on it; some of it has not. In addition, not all of the injected gas which has borne royalty will have borne it at the same rate.

The Department does not have an adequate system for collecting data on the royalty status of the gas injected. This information, together with other information about the approved injection schemes, is needed to determine the extent to which gas subsequently recovered from wells is subject to royalty when it is eventually sold. Hence, the Department is unable to assess how accurately gas producers classify their gas production in the monthly reports to the Department that accompany their royalty remittances.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 14

It is recommended that the Department of Energy establish appropriate procedures for obtaining and verifying information on gas injected into and recovered from wells for approved injection schemes, so that it can determine whether the Province is receiving the royalties to which it is entitled.

Deregulation – Deregulation of the oil and gas industry in late November 1986 has made it more difficult for the Department to determine whether the gas royalties that it collects from gas producers are calculated accurately.

The price at which gas is sold is a major factor in calculating royalty payable. Before deregulation, selling prices were regulated and set under agreements between the governments of Alberta and Canada. Since deregulation, however, gas prices have fluctuated in response to open market forces.

Before deregulation, the Department could verify the selling price used in royalty calculations by reference to regulated prices. Since deregulation it can only verify selling prices by reference to the producers' detailed sales records. In addition, it is evident that deregulation may have created opportunities for producers to structure their marketing arrangements in ways that are designed to reduce the amount of royalty they pay.

To determine whether appropriate selling prices have been used in calculating royalties, the Department would need to trace and verify all transactions from the wellhead through to the consumer. This is obviously impractical. Nevertheless, the Department needs to be able to obtain assurance that selling prices are reported reliably. The 'desk audits' performed since deregulation by the Department's Validation Unit on the information submitted by producers have not provided this assurance. The Department's Field Audit Unit can and does obtain the necessary assurance, but only on a very selective basis and normally more than a year later.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department review the methods it uses to verify the selling prices on which gas royalties are paid.

Since then, the Minister of Energy has announced that effective January 1, 1988 an "Alberta average market price" will be established. This price, which will represent the average price at which gas is sold, will be calculated monthly. For royalty calculation purposes, the selling price used may not be less than 80% of the "Alberta average market price". This should greatly simplify the verification of gas selling prices. This matter will be followed up during the next audit.

Follow-up of Previous Annual Report Recommendations

Oil and gas production data – In my 1985-86 annual report (section 2.11.1), I reported that oil and gas production figures on which royalty revenues are determined were not being adequately verified by the Department to establish whether they are sufficiently reliable for that purpose.

The Department is responsible for collecting the Province's oil and gas royalty and mineral tax revenues. In discharging this responsibility, it uses production data obtained from the Energy Resources Conservation Board (ERCB) and industry. The accuracy of the data supplied by the ERCB to the Department is vital, since it is the major component of the information used by the Department to calculate oil royalties and mineral taxes, and to verify the accuracy of gas royalties.

During 1986-87, the Audit Office again examined the systems used by the ERCB to collect and verify the production and related data used by the Department for royalty purposes. It concluded that the Department is still not justified in relying on the accuracy of the information supplied. The ERCB verifies the reliability of the production data that it collects by means of a program of inspections of the records maintained by production facilities. This program was originally designed to obtain assurance that the data collected is reliable for the ERCB's own purposes. The facilities selected for inspection were selected judgementally on the basis of those most likely to submit inaccurate data. A sample selected by this method, however, is unrepresentative and thus cannot be used to formulate an overall conclusion on the accuracy of the data.

During 1986-87, the ERCB continued to select facilities judgementally, but supplemented this judgemental sample with a representative sample. The representative sample, however, was small and defining errors was left to individual inspectors. Further, no method was established for projecting errors found in the sample to the whole population. For these reasons, no attempt was made to formulate an overall conclusion on the accuracy of the data.

My comments on conducting inspections based on judgemental samples must not be viewed as criticism. It is a logical way of correcting inaccurate reporting. In my opinion, however, this inspection work should be supplemented by a representative sample of sufficient size to enable an overall conclusion to be formulated. Such a conclusion would provide both the ERCB and the Department with objective information which would be a useful guide to deploying resources, monitoring improvements in the accuracy of reporting, and identifying the causes of inaccurate reporting.

In management letters to the Chairman of the ERCB and to the Deputy Minister of Energy at the conclusion of the audits, I made the following recommendation:

Recommendation No. 15

> *In order that the Department of Energy may rely on the accuracy of the production data supplied to it by the Energy Resources Conservation Board, it is recommended that the method for selecting facilities for inspection and for evaluating errors detected be reviewed.*

The Department of Energy recognizes the importance of obtaining accurate information on production. As was acknowledged in my last annual report, a task force made up of representatives of the Department, the ERCB and the Alberta Petroleum Marketing Commission was formed to look into the question of the accuracy of data supplied by the ERCB. The task force issued its report on April 13, 1987. If the recommendations of the task force are adopted, many of my concerns will be acted upon. It is understood that a Standing Committee will be formed which will be responsible for ensuring that the recommendations of the task force are implemented.

Prorated Production – During the examination of the systems used by the ERCB to collect and verify production data, the Audit Office again noted that the checking of prorated production is inadequate. Proration factors are used in allocating the production gathered at a facility to the wells that supply the facility. Production is most conveniently measured at the facility level. For royalty purposes, however, the measured production must be allocated back to the wells that supply the facility. This allocation is accomplished by testing the flow rates of individual wells connected to the facility at various times during the production period. Since the allocation is based on test measurements, the production may in total be under or over allocated. When this happens, the under or over allocation is corrected by using proration factors.

The ERCB does not compare the current month's proration factors used by a facility to those used in previous months or to an average. Analytical review of this nature could be useful since it may reveal trends indicating calculation or measurement errors. The examination also revealed that, as mentioned in my last annual report, the ERCB is not checking the calculations of prorated production and proration factors.

In 1985, the ERCB undertook a Test Verification Project. This involved obtaining evidence of well production tests from certain facility operators and comparing it with allocated production on monthly production reports submitted to the ERCB. Significant errors were discovered which resulted in adjustments to prorated production. I recommended in my last annual report that the ERCB require operators to submit selective test data for comparison with monthly production reports. This recommendation was not implemented during 1986-87.

In a management letter to the Chairman of the ERCB at the conclusion of the audit, it was recommended that the Energy Resources Conservation Board establish procedures for identifying significant changes or unusual trends in proration factors. It should also give priority to including in the computer program currently being developed, procedures for checking the calculation of prorated production and proration factors, and require operators to submit test data documentation, on a selective basis, for comparison with the data reported on monthly production reports.

Reporting and reconciling natural gas royalties – In my 1985-86 annual report (section 2.11.1), I explained why the Department was unable to reconcile promptly the volumes of gas reported by gas processing facilities with the volumes reported by the owners of gas wells. Because of this, the Department was not obtaining reasonable assurance that the Province is receiving promptly the royalty to which it is entitled.

Operators of gas processing facilities report each month to the Department the natural gas volumes available for sale (VAS). Operators of facilities also allocate the same VAS to the owners of the gas wells. Owners are also required to report their VAS to the Department to establish the amount of royalty due. Reconciling VAS reported by owners to VAS reported by facility operators can provide assurance to the Department that all monthly royalty returns have been received.

During the 1986-87 audit, it was observed that significant progress had been made in persuading owners to report VAS promptly, mainly by issuing royalty assessments. However, the reporting of VAS by operators continues to be late. For this reason, delays are experienced in gaining assurance that the Department has received all the royalty to which it is entitled. The Department states that it is working diligently with operators of processing facilities, and with the ERCB, to improve the timeliness of reporting. In addition, it is currently developing a method of identifying missing VAS reports from operators. Further, the Department has indicated that existing legislation allows it to levy penalties where the required information is not provided to the Department, and that it will recommend to the Minister that such penalties be imposed where necessary. As the effects of these procedures are not yet determinable, my previous recommendation, though modified to acknowledge the action taken, was again included in my management letter to the Deputy Minister of Energy:

Recommendation No. 16

It is recommended that the Department of Energy continue to take the action necessary to require operators of gas processing facilities to report the volumes of natural gas available for sale on a more timely basis.

Exploratory Drilling Incentive Program (1984) – In my 1985-86 annual report (section 2.11.1), I observed that the Department was administering this Program in a manner which could result in unexpected and unintended liabilities to the Province. The Department was allocating royalty holidays, or parts thereof, to the royalty payors who claimed them first, rather than restricting them to the extent of their participating interest in the well. I recommended that the Department establish procedures to limit the allocation of royalty holidays to the claimant's participation in the well, unless the other participants waive their rights to claim.

In response to this recommendation, the Department issued an information letter requiring equitable allocation of all royalty holiday benefits. It also instituted procedures to check that the portion of benefit claimed does not exceed the claimant's interest in the well. The information letter now requires operators of wells to provide the Department with a breakdown of the participating interests so that holiday benefits can be divided among the participants equitably. This eliminates my previously reported concern.

Old/new gas – In my 1985-86 annual report (section 2.11.1), I commented on the need for the Department to activate a computer program designed to verify the split between old and new gas, in the information reported to the Department by the gas industry for royalty calculation purposes. Old gas attracts higher royalty rates than new gas.

The 1986-87 audit confirmed that the Department has now activated the computer program. As a result, a number of anomalies between the old/new split as reported by royalty payors and that maintained on the Department's data base were identified. These are now being investigated. In due course, the Audit Office will examine the procedures used to investigate the anomalies identified.

2.13.2 **Alberta Oil Sands Technology and Research Authority** – year ended March 31, 1987

Observations from Financial Audit Work

During 1986-87, the Alberta Oil Sands Technology and Research Authority contravened its enabling legislation by paying into the Oil Sands Technology and Research Fund (OSTR Fund), money received from the Province's General Revenue Fund.

The Authority was established in 1974 under the Oil Sands Technology and Research Authority Act. Its purpose is to progress the development of new technology for recovering hydrocarbons from the Province's oil sands deposits and conventional petroleum reservoirs. The Authority's support for technology ranges from academic research to large-scale pilot projects.

Traditionally, the Authority has funded its activities with grants received from the Alberta Heritage Savings Trust Fund, and with technology sales. During 1986-87, however, the Authority also received $34.7 million in grants appropriated from the Province's General Revenue Fund and paid through Vote 5 (Oil Sands Research Fund Management) of the Department of Energy.

Section 19(5) of the Oil Sands Technology and Research Authority Act is very specific as to the type of income that the OSTR Fund can receive. The Act does not allow the OSTR Fund to accept funding from the General Revenue Fund. Accordingly, its appears that the OSTR Fund received the $34.7 million without proper legislative authority. This is acknowledged by the Authority in a footnote to its 1986-87 audited financial statements.

In a management letter to the Authority's Chairman at the conclusion of the audit, I made the following recommendation:

Recommendation No. 17

It is recommended that the Alberta Oil Sands Technology and Research Authority seek the necessary legislative authority to enable it to pay into the Oil Sands Technology and Research Fund, money received from the Province's General Revenue Fund.

2.13.3 **Alberta Petroleum Incentives Program Fund** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the procedures and controls used by the Department of Energy to process and pay incentive grants, in particular as they related to grants alleged to have been claimed and paid irregularly.

- An examination of the systems and procedures used by the Department to safeguard and account for the fixed assets associated with the administration of the Fund.

Observations from Extended Audit Work

Three claims for incentives under the Alberta Petroleum Incentives Program (APIP) appear to have been irregular. One claim was received in 1984 and the other two in 1986. Two of the claims totalling $1.6 million were paid before it was suspected that they were irregular; the other was not paid because the applicant had not supplied all the information needed to process the claim.

APIP was financed by the Province out of non-renewable resource revenue. The APIP Fund and its related regulations were administered by the Department of Energy. APIP incentives were for the purpose of reimbursing certain costs incurred in exploring for and developing oil and gas accumulations in Alberta.

Only expenditures incurred from 1981 through 1986 were eligible for APIP incentives, and the latest date for filing claims was December 31, 1987. By December 1987, more than 37,000 applications had been processed and nearly $2.2 billion in incentives had been disbursed.

It was acknowledged when APIP was first established that incentive claims had to be processed and paid promptly. This meant paying claims based on expenditures reported by applicants without first verifying or obtaining independent assurance that the expenditures reported were accurate. However, the Department instituted a number of controls designed to detect irregular applications prior to payments being made. It also established a program of post-payment audits to determine the accuracy of incentives already paid.

During one such audit in 1986, the recipient of an incentive payment could not be located. Further investigation revealed irregularities in the evidence supporting the claim and it was concluded that the claim had probably been improper. Thereafter, the Department undertook a full investigation of all previous applications with similar characteristics. It revealed a further claim which also appears to have been irregular.

As a result of these findings, the Department reviewed the adequacy of its control procedures for detecting irregularities in claims prior to payments being made. As originally designed, some of the control procedures relied on information obtained from external sources. Since the information had now been found to be less reliable than originally expected, the control procedures were revised to compensate for this weakness. These revised control procedures resulted in a request for information on, and the subsequent rejection of, a third irregular claim.

The RCMP has been notified of the circumstances surrounding these claims and is investigating this matter.

In August 1986, the Department received a cheque in the amount of $860,000 drawn on a trust fund and made payable to the APIP Fund. Although no details accompanied the cheque, it is believed that it may be connected with the irregular claims, although attempts to obtain additional information have so far proved unsuccessful.

In view of the action taken by the Department, and because the Program terminated in December 1987, a related recommendation is not included herein.

2.13.4 **Alberta Petroleum Marketing Commission** – year ended December 31, 1986

The annual financial audit was extended to include the following:

- An examination of the organization, operations and appropriateness of the Commission's internal audit function.

- An examination of the adequacy of the Procedures and Policy Manual of the Commission's Crude Oil Division.

2.13.5 Financial audits of the following were also completed for the fiscal year ended December 31, 1986:

Take-or-pay Costs Sharing Fund
Natural Gas Pricing Agreement Act Fund
Natural Gas Pricing Agreement Market Development Fund

2.14 ENVIRONMENT

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.14.1 **Department of the Environment** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the internal controls in the system used by the Department to control and account for expenditures on the Oldman River Dam.

- An examination of the internal controls in the financial system used by the Department to process expenditures and journal entries.

- An examination of the internal controls in the system used by the Department to control and account for expenditures under the Waste Management Sub-program of the Pollution Prevention and Control Program.

2.14.2 **Water Resources Revolving Fund** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the Fund's new computer-based accounting system, and associated accounting functions.

Observations from Financial Audit Work

During 1986-87, the Fund provided services to and collected revenue from an entity not authorized by the governing legislation.

The Fund operates under the provisions of the Water Resources Act. The Act allows the Fund to supply goods and services only to the Water Resources Management Services group of the Department of the Environment. During the year ended March 31, 1987, however, the Fund provided services to and invoiced the Town of Fairview.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department establish procedures designed to ensure that the Fund supplies goods and services only to the Water Resources Management Services group of the Department.

A legal opinion obtained by Management following the 1986-87 audit confirmed that providing and billing services to the Town of Fairview contravenes the Water Resources Act.

Observations from Extended Audit Work

Action is needed to eliminate various control deficiencies in the Revolving Fund's accounting system.

In early 1986, a new computer-based system was implemented to handle many of the Revolving Fund's accounting functions. In many respects, the new system has proved very satisfactory. It has saved considerable clerical effort in preparing invoices, reporting equipment usage and calculating depreciation costs.

In some respects, however, the system and its related accounting functions are deficient. For example:

- analyses by location of sales and cost-of-sales are maintained manually because the system cannot handle this function,

- monthly transactions are recorded on the system after the end of each month, instead of as they occur,

- the rental invoicing summary report is duplicated by a report prepared separately using a word-processor,

- a manually prepared general ledger was still being maintained in parallel with the new system fourteen months after it was implemented, but clerical differences between the two were not being reconciled, and

- the system does not provide enough historical information on purchases and sales of inventory items to allow inventories to be managed effectively. In addition, the report on slow moving inventory items includes items with zero quantity balances and does not show dollar values for any of the listed slow moving items.

Furthermore, when the audit concluded in July 1987, no post-implementation review of the system had been carried out.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department initiate a post-implementation review to identify and resolve deficiencies in the Revolving Fund's computerized accounting system. A review was performed shortly thereafter followed by efforts to address the deficiencies.

2.14.3 Financial audits of the following were also completed:

Alberta Environmental Research Trust – year ended December 31, 1986
Alberta Special Waste Management Corporation – year ended March 31, 1987
Environment Council of Alberta – year ended March 31, 1987
Surface Reclamation Fund – year ended March 31, 1987

2.15 EXECUTIVE COUNCIL

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.15.1 **Department of Executive Council** – year ended March 31, 1987

The annual financial audit was extended to include procedures considered necessary to support the expression of audit opinions on three cost sharing claims for Alberta Public Safety Services under the Joint Emergency Planning Program cost-sharing agreement with the Government of Canada.

Observations from Financial Audit Work

The Oil and Gas Conservation Act and the Energy Resources Conservation Act are not in agreement as to funding that the Department of Executive Council may advance to the Energy Resources Conservation Board.

Sections 5(1) and (4) of the Oil and Gas Conservation Act require advances to be made equivalent to 50% of the estimated net expenditures incurred by the Board in performing its duties under the Hydro and Electric Energy Act. Sections 19(1)(b) and (d) of the Energy Resources Conservation Act, however, appear to allow for 100% funding of these expenditures.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 18

It is recommended that the Department of Executive Council seek the legislative amendments necessary for the Oil and Gas Conservation Act and the Energy Resources Conservation Act to agree on the funding that the Department may provide to the Energy Resources Conservation Board.

2.15.2 **Energy Resources Conservation Board** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the financial controls exercised over the construction of a petroleum industry training centre.

- An examination of the system and procedures used by the Board to safeguard and account for fixed assets.

See section 2.13.1 of this report for observations and recommendations relating to the Energy Resources Conservation Board that arose out of the audit of the Department of Energy.

2.15.3 **The Wild Rose Foundation** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.13.1), I reported on a number of situations in which the The Wild Rose Foundation had contravened, or appeared to have contravened, provisions of the Wild Rose Foundation Act and Alberta Regulation 16/85. I recommended that the Foundation seek amendments to the Act and Regulation, where necessary, to allow it to operate as intended and to eliminate uncertainties as to interpretation.

During 1986-87, the Foundation continued to pay grants which contravened, or appear to have contravened, the abovementioned Act and Regulation. For example, instances were observed during the 1986-87 audit where:

- grants were paid to organizations to fund services and programs that were within the objectives of certain Provincially-owned entities or that receive funding from the Western Canada Lottery Corporation, even though paying grants to such organizations was prohibited by the Act;

- grants were paid to individuals, not solely to organizations as required by the Regulation;

- although the Regulation appeared to limit "matching" grants paid to the amount raised by the grant recipient through community fund-raising, grants were paid in excess of these limits; and

- grants were paid apparently to cover salaries and wages of employees of grant recipients, though again, this was prohibited by the Regulation.

In a footnote to the Foundation's 1985-86 and 1986-87 audited financial statements, the Board acknowledges that certain expenditures may have been made without proper legislative authority.

The Wild Rose Foundation Amendment Act, 1987 was passed in June 1987. It removed the legislative restriction which previously had prohibited the Foundation from funding services or programs that are within the objectives of certain Provincially-owned recreational and cultural entities, or of other entities that are funded by the Western Canada Lottery Corporation.

Also in June 1987, Alberta Regulation 282/87 repealed and replaced Regulation 16/85. The new Regulation removed a previous uncertainty by stating clearly that "matching" grants paid by the Foundation must not exceed the lesser of $50,000 and the amount raised by the recipient through community fund-raising. It also removed a restriction on paying grants to finance employee salaries and internal operating expenses of recipients. The new Regulation, however, continues to allow the Foundation to pay grants only to organizations, not to individuals. It also prohibits, unless otherwise approved by the Minister, the payment of grants to fund services or programs that are within the objects of organizations which receive grants from the Western Canada Lottery Corporation.

These legislative changes allow the Foundation to continue paying certain of the grants that it previously paid without legislative authority. However, the Foundation is still restricted to paying grants only to organizations, and not to individuals as it has done in the past. Further, the Foundation is likely to experience difficulties in determining whether the services and programs that it funds are not within the objectives of organizations funded by the Western Canada Lottery Corporation.

Accordingly, in a management letter to the Foundation's Chairman, I made the following recommendation:

Recommendation No. 19

It is recommended that The Wild Rose Foundation establish procedures designed to ensure that grants paid comply with the restrictions imposed by the Wild Rose Foundation Act and related regulations.

2.16 FEDERAL AND INTERGOVERNMENTAL AFFAIRS

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.16.1 **The Department of Federal and Intergovernmental Affairs** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of legislative authorities as they relate to the operations of Alberta's Foreign Offices and Agents General, and the Department's procedures for delegating and monitoring compliance with such authorities.

- An examination of the system used to administer situations in which the Minister is a party to negotiations on intergovernmental agreements, and procedures for monitoring compliance with the related legislation.

- An examination of the Department's procedures for ensuring that Foreign Office expenditures are appropriate, properly authorized and accounted for.

- An examination of the system used by the Department to safeguard and account for fixed assets located in Foreign Offices.

Observations from Extended Audit Work

The Department needs to improve the control exercised over expenditures that are disbursed, both on its own account and on behalf of other Provincial departments, by Alberta's Foreign Offices.

The Department operates Foreign Offices, for commercial and diplomatic purposes, in London England, New York, Tokyo and other major centres around the world. These offices pay many of their own expenses. The expenses are paid out of accountable advances held in bank accounts operated by the Offices, and are then re-imbursed by the Department. Accountable advances held by Foreign Offices at March 1987 totalled almost $1.6 million.

The information submitted by the various Foreign Offices to the Department in support of their expense re-imbursement claims varies greatly. In many cases it is inadequate. For example:

- Monthly reconciliations of local bank accounts are not submitted to the Department by all Foreign Offices. Furthermore, there is no documentary evidence that reconciliations received by the Department are reviewed by Departmental staff.

- Monthly reconciliations of accountable advances are not submitted to the Department by all Foreign Offices. Regardless of whether they are received, Departmental staff attempt to prepare reconciliations using cheque registers, copied or cancelled cheques and other available information.

– The Department does not attempt to ensure that re-imbursements incurred on behalf of other Provincial departments are approved by authorized expenditure officers, as required by the Financial Administration Act. Occasionally, these other departments are reluctant to acknowledge responsibility for expenses disbursed on their behalf, and increased collection efforts and costs are incurred. In one instance, an amount was outstanding for more than a year.

The variations in the form, and in some cases the absence, of information received by the Department on Foreign Office expenditures render effective financial control by the Department extremely difficult. More control is required over these expenditures of public money, by the Foreign Offices and by the Departments.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendations:

Recommendation No. 20

It is recommended that the Department of Federal and Intergovernmental Affairs issue written procedures designed to ensure that expenditures incurred by Alberta's Foreign Offices are properly controlled and reported. It should also require Foreign Offices to obtain prior written approvals for expenditures that they incur on behalf of other Provincial departments.

2.17 FORESTRY, LANDS AND WILDLIFE

Of the matters reported to management, the observations and recommendation below are those which were selected for inclusion in this report.

2.17.1 **Department of Forestry, Lands and Wildlife** – year ended March 31, 1987

The annual financial audit was extended to include an audit of the Province's 1986-87 claim under the Waterfowl Crop Damage Prevention cost-sharing agreement with the Government of Canada.

2.17.2 **Forestry, Lands and Wildlife Revolving Fund** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the procedures used by the Department to value, account for and control inventories.

2.17.3 **Fish and Wildlife Trust Fund** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.15.2), I commented on a payment of $525,000 made from the Buck for Wildlife Program Account of the Fish and Wildlife Trust Fund. Although the payment was within the authority of the Minister under the Wildlife Act, it did not comply with a Regulation made pursuant to this Act. I recommended that the Department consider seeking legislative changes to clarify apparent uncertainties.

The new Wildlife Act which came into force on April 1, 1987, resolved the uncertainty regarding the right of the Lieutenant Governor in Council to prescribe programs. However, an apparent anomaly still exists.

The Wildlife Act allows the Lieutenant Governor in Council to make regulations directing what may be paid out of prescribed programs forming part of the Fish and Wildlife Trust Fund, yet the same Act in section 7(2) gives the Minister the authority to "make payments out of the Fish and Wildlife Trust Fund for meeting any of the purposes for which the Fund is established." As reported last year, if apparent restrictions imposed by a regulation can be overriden by the Act, it is difficult to see the purpose of such a regulation.

I believe that if it is the intention of Legislation that the Lieutenant Governor should have the ability to restrict the power of the Minister by regulation, then such authority should be expressly stated in the statute. Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I repeated my previous recommendation in a modified form:

Recommendation No. 21

It is recommended that the Department of Forestry, Lands and Wildlife seek the necessary legislative changes to clarify the intention of Legislation as to whether the Lieutenant Governor in Council is able to restrict the power of the Minister by regulation.

2.17.4 Financial audits of the following were also completed for the fiscal year ended March 31, 1987:

Forest Development Research Trust Fund
Homestead Lease Loan Fund

2.18 HOSPITALS AND MEDICAL CARE

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.18.1 **Department of Hospitals and Medical Care** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the procedures used to monitor and control payments to medical practitioners.
- An examination of the procedures used to ensure nursing homes comply with the Nursing Homes Act and related regulations and administrative authorities established by the Department.
- An examination, at the request of the Department, of the controls to safeguard health care information stored at a privately operated computer centre.
- The provision of advice to the Department during the development of the new Registration, Eligibility and Premium System for the Health Care Insurance Fund.

Observations from Extended Audit Work

Payments to medical practitioners – The Department has procedures for monitoring and controlling payments to medical practitioners and for identifying, in conjunction with the Medical Practice Audit Committee (MPAC) of the College of Physicians and Surgeons, instances of abuse. During the year ended December 31, 1986, these procedures identified cases of abuse and resulted in approximately $400,000 being recovered.

Relationship with the Medical Practice Audit Committee

The Department could further facilitate the work of the MPAC and obtain better assurances regarding the MPAC's reviews of services provided by medical practitioners.

The MPAC is a Committee of the College of Physicians and Surgeons. Independently of the Department, it undertakes reviews of medical practitioners. A primary purpose of such reviews is to ensure that satisfactory medical services are provided. The reviews take into consideration the volume of services provided, the rate and costs of associated diagnostic services, and the efficiency of and medical indications for the services rendered.

These reviews have to be performed by skilled individuals familiar with current medical practice and it is reasonable that the College of Physicians and Surgeons should undertake this work.

The work of the MPAC is supported by the Department which examines billings by medical practitioners to identify apparently unusual situations. Each quarter the Department identifies for review by the MPAC, 400-450 profiles of practitioners whose practice activity does not match the norm.

From the profiles identified a significant number require additional research by the Department to collect the information required for the MPAC to properly review physicians' practices. The Department's systems do not, however, enable more than a few cases each quarter to be completely researched.

Members of the MPAC maintain their own files for tracking profiles from one quarter to the next. Since members perform their duties on a part-time and voluntary basis, the tracking of practitioners' profiles from one quarter to another by a Departmental system would help them to discharge their responsibilities more easily.

Following review, the MPAC refers certain cases to the Registrar of the College of Physicians and Surgeons. The Department, however, is only aware of the disposition of those cases in which money is to be refunded.

As the Department's procedures for controlling payments to medical practitioners include reliance on the review work of the College, it seems reasonable that the MPAC and the Registrar of the College should provide information as to the disposition of all cases reviewed.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 22

It is recommended that the Department of Hospitals and Medical Care improve its system for supporting the work of the Medical Practice Audit Committee of the College of Physicians and Surgeons and obtain information from the Committee and the Registrar of the College regarding the disposition of each review of the services provided by medical practitioners.

Profiles for non-medical practitioners and registrants

Currently, the patterns of practice for medical practitioners and chiropractors are reviewed. However, neither the patterns of practice for other non-medical practitioners, nor the use of the health care system by registrants are reviewed. Non-medical practitioners account for a significant portion of basic and extended health care expenditures.

If the Department's procedures were expanded to include examining patterns of practice for all practitioners and patterns of use for registrants, further abuses of the health care system might be identified and the Department would obtain better information for controlling and forecasting health care costs.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 23

It is recommended that the Department of Hospitals and Medical Care extend its system for producing and reviewing profiles to all non-medical practitioners and registrants.

Reports to senior Management

The accountability of the Department's Professional Services Branch to senior Management could be enhanced. Regular reports indicating work performed by the Branch (e.g. number of practitioners identified for further examination, number investigated in detail, recoveries of medical fees previously paid) would enable senior Management to better determine the utilization of resources assigned and would also allow Management to determine if additional resources could be usefully employed. Equally important, such reports could also provide information to the Government regarding the future actions of the Department in monitoring the medical community.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Professional Services Branch implement systems to produce regular reports of work performed by the Branch.

Statements of Benefits

The objectives of mailing an annual Statement of Benefits to each registrant have evolved over time and have not been reviewed recently by the Department.

Statements showing medical services paid for by the Department are mailed annually to all registrants. Responses from registrants on the validity of the services are limited. In this regard, one factor to be considered is that information on the Statement can be up to two years old.

An assessment of the usefulness of the Statements, which cost approximately $500,000 to produce and mail, depends upon their purpose. Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department reassess the objectives of producing and mailing the Statement of Benefits and determine whether the present process satisfies the objectives.

Practitioner Numbers

It is possible for practitioners working in walk-in centres to bill for their services through the centre's practitioner number and through their own practitioner number. This could result in duplicate billings or in claims for services at a rate higher than is allowed by the Medical Benefits Regulation. Furthermore, if practitioners use a centre's practitioner number, the Department's monitoring system cannot accurately determine the extent of services provided and billed by individual practitioners.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department ensure that services provided by practitioners are billed to the Department only once and at the appropriate rate allowed by the Medical Benefits Regulation, preferably by having practitioners use their own billing numbers.

Non-compliance by dermatologists with the Medical Benefits Regulation

The Department has identified instances where dermatologists have not complied with the Medical Benefits Regulation. Instances were identified where a consultation was claimed together with a claim for performance of a procedure. Such claims contravene subsection 5(2) of the Medical Benefits Regulation which states that "..... if a consultation is followed by a procedure performed by the consultant, a benefit will be payable for the consultation or the procedure, but not for both." These instances resulted in overpayments of approximately $300,000 during the period January 1985 to December 1986. However, the overpayments have not been recovered from the dermatologists.

In a management letter to the Deputy Minister at the conclusion of the examination, it was recommended that the Department take steps to ensure that the Schedule of Benefits is complied with.

Nursing Homes – The Department should further improve the way that it monitors the activities of nursing homes.

The Nursing Home Act and regulations pursuant thereto were enacted in September 1985. This new legislation was in response to many of the recommendations made in a March 1982 report by the Alberta Nursing Home Review Panel. The Department has made considerable progress in establishing the procedures necessary to accommodate the Panel's recommendations and the requirements of the new legislation.

Nursing homes submit various monthly reports to the Department. The audit examination revealed that costs and levels of service reported vary significantly between nursing homes. The reason for these variations might be legitimate and not reflect differing levels of care, however, as the cost and levels of service reported are not determined and analysed by the Department, the reasons for the variations often remain unknown. The Department could usefully implement analytic review procedures designed to detect significant changes in costs or levels of service reported by nursing homes from period to period and to highlight unusual cost or levels of service between different nursing homes. Such analyses might indicate problems with the services being provided, unusual efficiencies or inefficiencies, or reporting inaccuracies by individual nursing homes which warrant further investigation.

In addition to the above the systems could be further improved if:

- the formats of some of the reports that nursing homes submit to the Department were revised to eliminate duplicate information and to reduce administrative effort, and

- a formalized policy was established which defined the frequency and purpose of review-visits to nursing homes by the Department's Provincial Programs Branch. This policy should cover how often and in what special circumstances visits are to occur, the nature and extent of the reviews, documentation standards, and senior management involvement in reviewing the work performed, particularly where it is performed by staff consultants.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 24

It is recommended that the Department of Hospitals and Medical Care improve its procedures for monitoring the activities of nursing homes and for determining whether value is being obtained for the funding provided.

The absence of a precise definition of the "personal services" provided by nursing homes is resulting in inconsistent charging of residents for services provided.

Nursing Homes General Regulation A.R. 232/85 defines the basic care that nursing homes are to provide. Basic care includes personal services, but the Regulation does not specify what personal services include. The Department provides funding for basic care under Nursing Homes Operation Regulation A.R. 258/85. Because of the uncertainty about what is covered by personal services, some nursing homes are charging residents for personal supplies, while others are treating them as personal services which are covered by Provincial funding.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 25

It is recommended that the Department of Hospitals and Medical Care define clearly which services provided to nursing home residents are covered by "personal services", and ensure that such services are charged for consistently.

2.18.2 **Health Care Insurance Fund** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendations

Alberta Blue Cross Plan – In my 1985-86 annual report (section 2.16.2), I reported that previously identified control deficiencies over reimbursements to the Plan by the Fund, had continued throughout 1985-86. The Fund reimburses the Plan for optional health services paid by the Plan on behalf of registrants who have arranged for optional health coverage with the Fund. I recommended that the Department of Hospitals and Medical Care take advantage of the provision in the agreement with the Alberta Blue Cross Plan for optional health coverage, which allows the Department to examine the records of the Plan. Such examinations should include periodic matches of the registration file with the records of the Fund, as well as selective reviews of systems and controls. I also recommended that the Department obtain computer tapes to support claims on the Fund by the Alberta Blue Cross Plan, and establish procedures for balancing these tapes and for test-verifying individual claims. Computer routines could also be developed to check the reasonableness of claims.

During 1986-87, efforts were made to ensure that payments re-imbursed to the Plan were valid. As allowed by the agreement, the Department reviewed the systems and controls used by the Plan to process payments for optional health services. In addition, periodic attempts were made to match the Fund's registration files with the Plan's registration files. Enhancements to the Plan's computer systems were begun in an effort to facilitate computer tape matching.

The 1986-87 annual audit revealed various discrepancies on certain claim payments by the Plan where registration numbers were invalid, service dates were later than registration dates, and service dates were during periods when registrants (according to Departmental records) were not entitled to Plan coverage. Also, payments were made in respect of claims which exceeded the one year deadline between service dates and claim submissions.

The Audit Office considers that the Department should further improve its control over reimbursements to the Plan for optional health services. The total reimbursement is considerable having grown from $87,146,000 in 1985-86 to $101,009,055 in 1986-87.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 26

It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Hospitals and Medical Care improve the way that it determines the validity of payments made by the Alberta Blue Cross Plan on behalf of the Fund.

Claims – The Department's Internal Audit Branch again estimated that significant overpayments occurred during 1986-87.

In my 1985-86 annual report (section 2.16.2), I reported that the Department continued to use override codes when processing claims and that this resulted in overpayments. I recommended that, in relation to the administration of the Health Care Insurance Fund, the Department take immediate action to clear abnormal accumulations of unprocessed claims and exercise extreme care when using override codes.

The Department's Internal Audit Branch audits each year a significant number of claims paid by the Fund. As in prior years, the Audit Office was able to rely on the work of the Branch and the results of the work it performs. Weekly, the Branch examines a sample of claims to determine whether they are in compliance with legislative authorities. Any errors detected are returned to the Claims Branch for correction. Based on its work, the Internal Audit Branch projects statistically the total overypayments occurring in the total claims paid.

In the last three years, the Branch has projected overpayments totalling $10.8 million ($2.5 million in 1984-85, $4.2 million in 1985-86, $4.1 million in 1986-87). These overpayments are caused by using incomplete edit criteria for processing claims, the inappropriate use of override codes, and failure to identify payments that are recoverable from The Workers' Compensation Board. While the errors identified in the samples are corrected, the Department does not attempt to identify and correct the projected overpayments.

The Department recovers from The Workers' Compensation Board payments made from the Fund that relate to injuries covered by the Board. The Department, however, does not have an adequate system for identifying all such claims. Consequently, significant expenditures are not recovered from the Board. Using a simple computer routine, the Audit Office was able to identify claims which had not been recovered from the Board.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 27

It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Hospitals and Medical Care:

- *ensure that claim expenditures are controlled through proper use of override codes and adequate computer edit criteria.*
- *recover prior years' overpayments.*
- *monitor recoveries from The Workers' Compensation Board in order to identify other claims which should also be recovered.*

Registration – In my 1985-86 annual report (section 2.16.2), I expressed concern over the payment of claims on behalf of terminated individuals. I recommended that the Department reassess the adequacy of its procedures for establishing the date of cancellation of a registration, and thoroughly investigate any claims paid with respect to services provided after that date.

In a response to my 1985-86 recommendation, the Provincial Treasurer stated in a report to the Public Accounts Committee:

> "A policy for establishing cancellation dates, and procedures as to when and how claims paid after termination should be investigated and recovered is being developed, and this issue will be further addressed in reciprocal agreements under discussion with other Provinces.

Implementation of the Registration Eligibility and Premium system will facilitate the review of claim payments before processing an automatic cancellation of a registration."

I am satisfied that in relation to its administration of the Health Care Insurance Fund, the Department is taking appropriate action to deal with my concern.

2.18.3 HOSPITALS

The Provincially-owned hospitals and their related foundations operate under the authority of the Provincial General Hospitals, Cancer Programs, University of Alberta Hospitals, University Hospitals Foundation and Mental Health Acts. The financial statements of these Provincial corporations are not included in the public accounts, nor are the entities reflected in the consolidated financial statements of the Province. The Auditor General has commented on this matter in section 2.2.1 of this report. The Minister of Hospitals and Medical Care, who is charged with the administration of the above Acts, is required to table annually copies of these audited financial statements.

2.18.4 **Alberta Cancer Board** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.16.5), I reported that the Alberta Cancer Board lacked an effective and co-ordinated strategy for identifying, developing and implementing new computer applications for its two major facilities - the Cross Cancer Institute (Edmonton) and the Tom Baker Cancer Centre (Calgary). I recommended that the Alberta Cancer Board establish a central steering committee, with representatives from both major facilities, to identify areas where new electronic data processing applications could be justified and to direct the development and implementation of systems at all of the Board's facilities.

During the 1986-87 annual audit, the Audit Office confirmed that the Board has taken appropriate action by establishing an Information Systems Steering Committee. The Committee has recommended strategies for dealing with the overall development and implementation of EDP systems.

2.18.5 **Alberta Children's Provincial General Hospital** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.16.6), I reported that the Hospital had submitted falsified financial information in support of claims for capital funding from the Department of Hospitals and Medical Care. I indicated that I viewed with concern any situation in which inaccurate documents are issued intentionally in order to subvert expenditure controls and recommended that the Hospital ensure that future claims comply with the governing legislative authorities.

All such claims examined by the Audit Office for the year ended March 31, 1987 complied with the governing legislative authorities, therefore, my recommendation is not repeated.

2.18.6 **Alberta Hospital Ponoka** – year ended March 31, 1987

Observations from Financial Audit Work

The value of various goods and services that had not been received at March 31, 1987, was included in the financial statements as expenditure and accounts payable. Overstatement of expenditure in this manner is contrary to generally accepted accounting principles and was

most evident in special maintenance projects in progress at the year end. The Hospital agreed to make corrections following discussion with the Audit Office.

In a management letter to the Hospital's Executive Director at the conclusion of the audit, it was recommended that the Hospital take greater care in recording year end payables, especially for any special maintenance projects in progress. The Hospital has stated that it will carefully scrutinize cutoff procedures at the year end.

2.18.7 **Foothills Provincial General Hospital** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the procedures and processes used by the Hospital to contract for purchased services and control in-house capital projects.

Observations from Extended Audit Work

The Hospital has not established procedures for authorizing the tendering and contracting for goods and services. Regarding in-house capital projects, the General Manager is responsible for budgeting, requesting bids, selecting suppliers, inspecting work, approving invoices and reviewing job costing reports. The Audit Office believes that this lack of segregation indicates inadequate control over in-house capital projects.

In a management letter to the Hospital's President at the conclusion of the audit, it was recommended that the Hospital adopt and implement policy and set authority limits for the tendering and contracting of goods and services, and review internal control over in-house capital projects. Hospital Management has indicated that policies for tendering and contracting have been prepared for presentation to the Board of Management, and in-house capital projects duties have been segregated.

2.18.8 **Glenrose Rehabilitation Hospital** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the systems used to control the spending of capital funds on the Hospital's new boiler house (Phase I) and rehabilitation unit (Phase II).

Observations from Extended Audit Work

The total cost of the new facilities is estimated to be approximately $66 million. At March 31, 1987, construction of the boiler house was almost complete. Total expenditures on the two phases amounted to $8,975,000.

The examination indicated that a good system of control was in place for Phase I of the construction project. It was noted, however, that no policies and procedures manual exists to codify responsibilities and controls. Because of the dollar value and number of years involved in completing Phase II, it would be appropriate to strengthen control by documenting procedures for the administration of the project. In a management letter to the Hospital's Acting Executive Director at the conclusion of the audit, it was recommended that prior to the construction of Phase II of the Project (Rehabilitation Unit) the Hospital develop a manual of the policies and procedures to be used to administer Phase II.

2.18.9 **University Hospitals Board** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.16.10), I reported that a computer programming error and control weaknesses in the Board's revenue systems resulted in revenue not being billed and recorded.

During the 1986-87 annual audit, it was confirmed that the Board had instituted improved procedures designed to detect programming errors. Furthermore, system changes have been implemented to highlight records of injuries that could result in billings to the Workers' Compensation Board.

My concern regarding outpatient billings has not, however, been resolved satisfactorily. Although there is a computer system which identifies those patients who should be billed, the internal audit department has projected that foregone revenue from unbilled amounts could be approximately $260,000 per year. The Board has informed me that further automation is required and that such is planned.

In a management letter to the Board's Acting Chief Executive Officer at the conclusion of the audit, I made the following recommendation:

Recommendation No. 28

It is recommended that the University Hospitals Board address the significant weaknesses in its outpatient revenue billing system.

Observations from Financial Audit Work

Outpatient Pharmacy – During the year, Hospitals' staff discovered that sales in the Outpatient Pharmacy were not being fully accounted for. Most of these sales are to outpatients who attend the Hospitals' clinics.

An investigation of the irregularity was conducted by the Board's internal audit department and the Edmonton City Police. A former University Hospital pharmacist has since been charged in connection with a $120,000 theft. As this matter is pending, I must withhold further comment at this time.

In a management letter to the Board's Acting Chief Executive Officer, it was recommended that the internal audit department review other revenue areas where potential may exist for similar irregularities. This recommendation is consistent with the recommendation made in 1985-86 that the internal audit department conduct an in-depth investigation of revenue systems to highlight weaknesses that should be addressed to ensure that all revenues are recorded and received.

Fixed assets – The Board has not conducted regular physical counts to verify the continued existence of its fixed assets.

In 1983 a complete physical count of fixed assets was undertaken which resulted in a significant write-off of fixed assets that could not be accounted for. The cost of equipment and furniture, including items purchased for the Walter C. Mackenzie Health Sciences Centre, has increased from $23.2 million in 1983 to $87.7 million at March 31, 1987. However, there has not been a comprehensive physical count of fixed assets since 1983.

In April 1987, the Audit Office requested Hospitals' staff to update the fixed asset accounting records for transfers and disposals that had not been processed. The updated records disclosed

that $8.5 million of fixed assets were located in buildings which had in fact been demolished. A further $3.9 million of fixed assets were reported to be in vacated buildings. I have since been advised that $9.4 million of these fixed assets have been accounted for and work is in progress to account for the balance of $3 million.

This problem exists because of the continuing failure to undertake regular physical counts of fixed assets for the purpose of substantiating the accounting records. There is the likelihood that many adjustments may be necessary including a significant write-off of fixed assets that can not be accounted for.

In a management letter to the Board's Acting Chief Executive Officer at the conclusion of the audit, I made the following recommendation:

Recommendation No. 29

It is recommended that the University Hospitals Board take immediate action to account for all fixed assets owned by the Board and establish procedures to physically account regularly for such assets.

2.18.10 **Alberta Cancer Foundation** – year ended March 31, 1987
Alberta Hospital Edmonton Foundation – period ended March 31, 1987
University Hospitals Foundation – year ended March 31, 1987

Observations from Financial Audit Work

My reports on the financial statements of these Foundations for the periods ended March 31, 1987, contained reservations of opinion because, as explained in section 3.2.2, of this report, the Foundations receive donation revenue which is not susceptible of complete audit verification.

2.18.11 Financial audits of the following were also completed:

Alberta Urban Hospitals Project Management Ltd. – year ended March 31, 1987
Edmonton Area Hospital Advisory Council Fund – year ended March 31, 1987
Alberta Hospital Edmonton – year ended March 31, 1987
Northern Alberta Children's Hospital – period ended March 31, 1987

2.19 LABOUR

Of the matters reported to management at the conclusion of the following audits, none warrant inclusion in this report.

2.19.1 **Department of Labour** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the systems and procedures used by the Department to control and account for manpower costs at the Employment Standards Branch.

2.19.2 Financial audits of the following were also completed for the year ended March 31, 1987:

Personnel Administration Revolving Fund
Long Term Disability Benefit Fund
Long Term Disability Benefit Fund – Bargaining Unit

2.20 MUNICIPAL AFFAIRS

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.20.1 **Department of Municipal Affairs** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the system used by the Department to recover assessment services costs from municipalities.

2.20.2 **Alberta Mortgage and Housing Corporation** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of certain of the systems and procedures used to value, control and account for the Corporation's land and property holdings.
- An examination of the appropriateness and adequacy of the Corporation's main computer-based accounting systems.
- A review of alternatives for improving the way that the Corporation's operating results and financial position are presented in its annual financial statements.

Observations from Extended Audit Work

Land information systems – The Corporation needs a better system for recording the information needed to manage its land programs.

Land programs are land development and sub-division projects. They are valued on the Corporation's March 1987 balance sheet at $126 million. At present, the Corporation uses four computerized systems to record and report management information on land programs. These systems, however, neither individually nor collectively accumulate all the information needed to manage land programs properly.

Land and development costs are recorded only on a project basis. This means that the systems do not provide information on the cost of lots held and sold, and on the year-by-year financial results of developing and selling lots for land development projects. Although much of the information not recorded on the systems is collected elsewhere by the Corporation, it is not available in a form that makes it readily and conveniently available when needed. Reports containing land program information are often delayed due to the complications involved in extracting information from the four independent computer systems, and some reports contain errors.

In a management letter to the Corporation's President at the conclusion of the audit, I made the following recommendation:

Recommendation No. 30

It is recommended that the Alberta Mortgage and Housing Corporation develop and implement a system capable of providing accurate, complete and timely information to manage and control its land programs.

Annual financial statements – There is scope for improving the way that the Corporation's financial affairs and operations are presented in its annual financial statements.

At present, the Corporation's annual financial statements consist of two separate statements, viz. the Corporate Account and the Mortgage Insurance Fund. The statements may be confusing to readers who do not understand the relationships between the assets, liabilities, revenues, expenditures and deficit accounts in the two separate statements. For example, readers who wish to determine the reported value of the Corporation's investments must adjust the value of investments shown in the Corporate Account by the allowance for losses on claims shown in the Mortgage Insurance Fund.

In an effort to eliminate the aforementioned complications, it was recommended in a management letter to the Corporation's President that, in future, the Corporation consolidate the Corporate Account and the Mortgage Insurance Fund into a single set of financial statements and that inter-fund transactions be eliminated. The Corporation has indicated that my recommendation will be considered for the March 1988 fiscal year.

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.17.2), I reported that the Corporation was not accounting for its land programs in accordance with generally accepted accounting principles (GAAP). Reductions in value of an enduring nature on land banking and inventory (long-term investments) were accounted for by setting up provisions, rather than by writing them off as required by GAAP. In addition, land held for sale (short-term investments) was not valued at the lower of cost or market, but instead, provisions were set up for non-temporary reductions in value. Although I acknowledged that these departures from GAAP did not significantly affect the Corporation's 1985-86 operating results, I cautioned that they could do so in future. I also recommended that the Corporation account for its land programs in accordance with GAAP.

I am pleased to report that when preparing its financial statements for the year ended March 31, 1987, the Corporation adopted this recommendation.

2.20.3 **Metis Population Betterment Trust Account** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

Various previously reported irregularities pertaining to the establishment and administration of the Metis Population Betterment Trust Account persisted throughout 1986-87.

These irregularities were reported to the Legislative Assembly in the Auditor General's 1983-84, 1984-85 and 1985-86 (section 2.20.2) annual reports. The main problem concerns the legality of the Trust Account. A legal opinion obtained by the Audit Office states that the Trust Account is not legally constituted because section 8 of The Metis Betterment Act lacks the authority to establish a fund of this nature. If the Trust Account is not legally constituted, it follows that the revenue it receives, the expenditures it makes, the assets it acquires, and the liabilities it incurs, all lack legislative authority.

Another problem concerns the manner in which the members are appointed and elected to the local boards of the eight settlement associations established under the Act. The method used does not comply with section 4(3) of the Act. In addition, the legislation governing the payment of honoraria to board members appears to be inconclusive and flawed. These two concerns cast considerable doubt on the legitimacy of honoraria paid to board members by the Department of Municipal Affairs.

In my 1985-86 annual report, I recommended that as soon as practical, action be taken to resolve the various problems relating to non-compliance with, and inadequacies in, the Trust Account's legislative authorities.

Since then the Department has made progress towards obtaining new legislation. In June 1987, the Minister responsible for Housing and Native Programs tabled in the Legislative Assembly a document entitled "Implementation of Resolution 18 (A Resolution Concerning an Amendment to the Alberta Act)." This document is a preliminary step towards "the entrenchment of Metis settlement lands in the Alberta Act and the defining of local government on the settlements." It appears to address, albeit in general terms, the areas of concern raised in previous reports of the Auditor General.

The Department anticipates that following public comment and further consideration of the many issues involved in implementing Resolution 18, the process will lead to new legislation.

Pending resolution of these concerns, my previous recommendation is repeated:

Recommendation No. 31

It is recommended that, as soon as practical, action be taken by the Department of Municipal Affairs to resolve the various problems relating to non-compliance with the legislative authorities pertaining to the establishment and administration of the Metis Population Betterment Trust Account.

2.20.4 Financial audits of the following were also completed:

Alberta Planning Fund – year ended March 31, 1987
Improvement Districts' Trust Account – year ended December 31, 1986
Metis Settlement Associations Grants Administration Fund – year ended March 31, 1987
Metis Settlements Trust Fund – year ended March 31, 1987
Special Areas Trust Account – year ended December 31, 1986

2.21 PUBLIC WORKS, SUPPLY AND SERVICES

Of the matters reported to management, the observations and recommendation below are those which were selected for inclusion in this report.

2.21.1 **Department of Public Works, Supply and Services** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the systems used by the Department to identify, plan and acquire the government's short-term and long-term office space requirements.
- An examination of the systems used to control property management costs associated with accommodation owned and leased by the Province.
- An examination of the system used to plan and implement capital construction projects.

Observations from Extended Audit Work

Office space requirements – The Department's present systems are not capable of providing all the information needed to support decisions associated with acquiring major blocks of office space, whether by purchase, lease or construction.

The Audit Office concluded that significant benefits could be derived from upgrading the Department's system to improve its ability to forecast supply and government demand for long-term office space in Edmonton and Calgary. Among these benefits would be that:

- forecast demand could be compared to the existing and planned supply of government office space. This would enable the Department to develop and simulate the effect of alternative strategies for dealing with potential shortages and surpluses;

- preplanning alternative strategies would enable the Department to project the likely impact of external market forces on supply and demand, and to assess cost-benefit implications. This information could be used to support decisions on whether to lease or build; and

- combining the four computer-based systems currently used for monitoring space inventory could save data processing costs and produce a system capable of providing much of the information needed for forecasting and planning.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department combine the systems it uses to monitor government accommodation and improve its ability to forecast long-term supply of and demand for office space in Edmonton and Calgary.

Capital construction projects – Although the Department has adequate systems for planning and implementing special purpose construction projects undertaken for other government organizations, it does not evaluate the appropriateness of these projects.

Under the Planning and Implementation of Construction Projects Program (Vote 4), the Department is responsible for meeting the Government's needs by means of capital construction. As such, the Department is accountable to the Legislative Assembly for the approximately $200 million that it spends each year under the Program.

The Department considers that it is responsibile for planning and implementing projects, but not for the appropriateness of projects. As such, the organizations that prescribe the scope of projects are not accountable for the costs involved, a situation which is hardly conducive to the economic use of public money.

The Audit Office concluded that the Department cannot be properly accountable for the money it spends under the Program unless it plays an influential role in determining the appropriateness of the projects that it funds. Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 32

It is recommended that the Department of Public Works, Supply and Services establish procedures for determining the appropriateness of the construction projects that it funds, and for which it is accountable to the Legislative Assembly.

Property management costs – The Department needs better systems for accumulating the information needed to control property management costs.

Each year the Department spends more than $90 million operating and maintaining government-owned facilities. This includes the cost of utilities, maintenance and security services.

Property management costs are controlled on the basis of groups of buildings. However, a by-product of privatization has been the need to identify and report property management costs on a building by building basis. This allows property management costs to be monitored more closely, and in some cases, to be reduced. For these reasons, the Department has begun to develop systems to budget and monitor all property management costs on a building by building basis; 1987-88 costs are already budgeted this way.

The Department's Property Management Division produces an annual summary of costs, analysed by function, building and building type. It reports costs per square meter by building type, but unfortunately, not by individual building. If it did, costs per square meter of similar buildings could be compared. This would help the Division to identify inefficient buildings for which cost reduction strategies need to be developed.

The Department recognizes this and has begun to develop procedures for re-classifying costs and producing all property management information in the required format. It has also arranged meetings with area managers and property superintendents to discuss common concerns and to develop cost reduction strategies.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department continue to improve the systems that it uses to collect and generate property management information.

2.21.2 Financial audits of the following were also completed for the year ended March 31, 1987:

Public Works, Supply and Services Revolving Fund
Public Works, Supply and Services Security Deposits Trust Fund

2.22 RECREATION AND PARKS

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.22.1 **Department of Recreation and Parks** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the systems used by the Department to control, safeguard and account for fixed assets.

Observations from Extended Audit Work

The Department needs to improve the systems it uses to control fixed assets. The 1986-87 audit revealed that:

- some of the fixed assets owned by or under the custodianship of the Department are not recorded in the fixed asset records,
- some of the assets that are recorded in the fixed asset records are not described sufficiently well for them to be identified, or identified with certainty,
- the cost of fixed assets acquired each year is not reconciled to the fixed asset records to minimize the risk that assets have been acquired but not recorded, and that
- only a relatively small number of assets on hand are physically verified each year.

In these respects, the Department's fixed asset systems and procedures do not comply with the control requirements prescribed for all government departments in the Accounting and Financial Control Manual issued by the Treasury Department.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department modify its systems for controlling its fixed assets to comply with the requirements of the Treasury Department's Accounting and Financial Control Manual.

2.22.2 **Alberta Sport Council** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the system used by the Council to control fixed assets.
- An examination of the system used by the Council to monitor how sports associations use Provincial funding.

Observations from Extended Audit Work

The Council is not exercising its right, nor meeting its responsibility, to determine whether the programs it funds are administered by sports associations in the manner required by the funding agreements.

This concern was reported to the Council in management letters following the 1984-85 and 1985-86 audits, together with recommendations that the Council establish a program of review procedures to obtain an appropriate degree of assurance. I also commented on this in my 1985-86 annual report (section 2.22.2). I indicated, however, that review procedures had been developed and were to be implemented shortly thereafter.

The 1986-87 audit confirmed that a program of review procedures has been implemented. Regrettably, however, the procedures do not include examining evidence relating to the nature and purpose of the sports associations' expenditures. Accordingly, the Council is unable to provide assurance that funding has been used as intended.

Accordingly, in a management letter to the Council's Chairman at the conclusion of the audit, I again made the following recommendation:

Recommendation No. 33

It is recommended that the review procedures used by the Alberta Sport Council to monitor the activities of sports associations be extended, within reasonable limits of cost, to include examining the associations' expenditures to obtain assurance that the funding provided is used for the purposes intended.

Observations from Financial Audit Work

My report on the financial statements of the Council contained a reservation of opinion because, as explained in section 3.2.2 of this report, the Council receives donation revenue which is not susceptible of audit verification.

2.22.3 **The Recreation, Parks and Wildlife Foundation** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the audit and reporting system used by the Foundation to monitor how organizations funded by the Foundation use such funding.

Observations from Extended Audit work

The Foundation lacks satisfactory procedures for determining whether the grants it pays to organizations are used for the purposes intended.

This concern was reported to the Foundation in management letters following the 1984-85 and 1985-86 audits, together with recommendations that proper procedures be established. I also commented on it in my 1985-86 annual report (section 2.22.3). I indicated, however, that the

Audit Office had been informed that in 1986-87 the Foundation had established a program for reviewing the activities of the associations that it funds.

The 1986-87 audit revealed that the program involves reviewing the activities of a selection of the Registered Provincial Recreational Associations which receive approximately 30% of the grants paid by the Foundation. Regrettably, the review procedures do not include examining the evidence needed to determine the nature and purpose of the associations' expenditures. Accordingly, they are unable to provide assurance that the funding provided is used as intended.

Accordingly, in a management letter to the Foundation's Chairman at the conclusion of the audit, I made the following recommendation:

Recommendation No. 34

It is recommended that The Recreation, Parks and Wildlife Foundation extend the scope of its review program to all organizations to which it pays grants and, within reasonable limits of cost, review a sample of expenditures to determine whether grant funding has been used for the purposes intended.

Observations from Financial Audit Work

My report on the financial statements of the Foundation contained a reservation of opinion because, as explained in section 3.2.2 of this report, the Foundation receives donation revenue which is not susceptible of audit verification.

2.22.4 Financial audits of the following were also completed for the year ended March 31, 1987:

Recreation and Parks Revolving Fund
International Youth Year – 1985 Trust Fund
1987 Western Canada Games Trust Fund

2.23 SOCIAL SERVICES

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.23.1 **Department of Social Services** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the financial controls exercised by the Department over expenditures under the Child Welfare Program (Vote 3).

- An examination of the systems used to monitor and control expenditures under the Social Allowance Program and the Assured Income for the Severely Handicapped Program.

- An examination of the systems used to monitor and control grant expenditures to agencies contracted to provide services to disabled persons.

- An examination of the accounting system and internal controls in place, and the financial accountability provided to the Department by, the Baker Centre.

- An examination of the activities of the Department's Information Resource Management (IRM) Branch.

- Audits of the Province's annual cost-sharing claims for the years ended March 31, 1982 through 1987 under the Canada Assistance Plan Agreement with the Government of Canada.

Observations from Extended Audit Work

Child Welfare Program and Information System – There is considerable scope for improving the usefulness of the Child Welfare Information System (CWIS) and for closer monitoring of compliance with legislative authorities and Departmental policies.

The Child Welfare Program provides support for children committed to the care of the Province. Under the Program, the Department operates child-care institutions and group homes, and contracts with community agencies for the provision of related services. The Program's 1986-87 budget exceeded $127 million.

In my 1985-86 annual report (section 2.23.1), I commented on weaknesses in the system used to administer certain aspects of the Program and recommended that the CWIS be improved to ensure:

- that it meets the Department's information needs, including providing explanations for variances between budgeted and actual costs, and

- that caseworkers and administration staff comply with the requirements of the Department's Child Welfare Program Manual.

As a result of audit work carried out during 1986-87, it was concluded that the Department's Child Welfare Handbook and Child Welfare Program Manual both reflect the requirements of the Child Welfare Act.

The Department's CWIS is an online system with terminals in district offices. It is designed to provide case workers with access to information on children in care. The complex design of the CWIS data base, however, makes information storage and retrieval difficult and time consuming. This is causing increasing user dissatisfaction with, and a reluctance to use, the CWIS. While some Program units find the CWIS to be a useful source of information, management and staff generally maintain their own files to satisfy their day-to-day information needs.

There are a number of other problems with CWIS. For example, technical problems have hampered attempts to improve the statistical reports produced from CWIS information. The Department's monthly Management Information Bulletin contains CWIS information which both regional and corporate offices consider to be unreliable. In addition, many of the data fields on the CWIS are not used.

Some of the problems associated with the CWIS could have been avoided if it had been designed to handle data more efficiently. It could then have played a more significant role in helping caseworkers discharge their day-to-day responsibilities, and in satisfying the information needs of Management. Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 35

It is recommended that the Department of Social Services make its Child Welfare Information System more effective by improving its speed, making it more user-friendly and taking steps to ensure that the information it captures is reliable.

The CWIS does not capture financial information. Financial information is available on the Department's central accounting system but cannot be readily summarized and compared with the information on the CWIS. Accordingly, the CWIS is unable to provide, for example, cost profiles for the children in care, comparisons between projected and actual costs, or comparative costs of maintaining children in different types of facilities.

Regional offices process large volumes of expenditure transactions for entry to the Department's central accounting system. In so doing, they rely on clerical staff to check that payments are properly authorized and not duplicated. Control over these transactions could be improved and clerical effort reduced if the data stored in the CWIS could be used to verify electronically the acceptability of these transactions.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 36

It is recommended that the Department of Social Services upgrade its Child Welfare Information System to include information on financial aspects of the Child Welfare Program.

The Department collects, on the CWIS and elsewhere, some of the information needed to evaluate Program achievements. Enhancing the system and the information that it collects would facilitate these evaluations. It would also enable the CWIS to provide a wider variety of management information on exceptions, trends and variances.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 37

It is recommended that the Department of Social Services upgrade its Child Welfare Information System so that it can provide more complete information on the extent to which Child Welfare Program expectations are being achieved.

Departmental policies acknowledge the importance of monitoring the treatment and care received by children. The court has appointed the Children's Guardian to act as guardian for about 20% of the children under the Province's care. The care of other children is monitored by the Department's district office staff. This may be inappropriate because the monitoring is being performed by people who are not independent of those who are providing the care. The Child Welfare Handbook states that "the Children's Guardian role is one of decision making, consenting, monitoring and advocating on behalf of children within the system." Accordingly, and because the Office of the Children's Guardian is independent of the day-to-day provision of care, the Children's Guardian is qualified to monitor the services provided to all children under the Child Welfare Act.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 38

It is recommended that the Department of Social Services ensure that the monitoring of services provided under the Child Welfare Program is performed by people who are independent of those who are providing the services.

Social Allowance and Alberta Assured Income for the Severely Handicapped (AISH) Programs – There are numerous long-standing deficiencies in the systems used by the Department to control and record expenditures, and to verify the eligibility of benefit entitlements, under the Social Allowance and AISH Programs. There is also considerable scope for improving the systems to enable them to provide more extensive program delivery information, and to promote better service delivery.

The Social Allowance Program provides assistance to people in need. This involves providing the money, goods and/or services essential to health and well-being, as defined in legislation. The AISH Program is an income-tested program which provides financial and health benefits for handicapped adults. The Department refers to people who receive benefits under these programs as clients.

The Department provides direct financial benefits to clients by way of district office cheques, payroll (Autopay) cheques, and benefit vouchers. District office cheques are issued to meet, for example, initial, short-term and emergency needs, and where significant fluctuations in the clients' benefit entitlements prevent monthly income averaging. Payroll (Autopay) cheques are used to disburse automatic monthly benefits to clients whose entitlements are long-term and constant. Benefit vouchers are used, for example, where clients are deemed unable to handle their own financial affairs, or where a cheque cannot meet an immediate need.

In my 1985-86 annual report (section 2.23.1), I commented on deficiencies in the five separate computer systems used to control and record expenditures under the Department's Income Security and Social Allowance Programs. I recommended, for the second consecutive year, that the Department establish procedures to detect and correct anomalies and inconsistencies in the data stored on the systems. I also suggested integrating the systems to avoid duplication of the data stored.

During 1986-87 these systems were again examined by the Audit Office as part of a broader-based examination of the systems used to administer the Social Allowance and AISH Programs. It was again concluded that there are serious problems with the systems.

Client Files – The information accumulated on clients' files is used to check that clients and their dependents are properly identified, and that their needs and eligibility for benefits are properly assessed and documented. The accuracy of this information is vital since it is the basis for determining the benefits that are disbursed.

The Audit Office observed the following deficiencies related to client files:

- Of the client files examined, 43% lacked evidence that a social worker had obtained or examined the documentation needed to establish the identity of clients and/or their dependents.

- The Department's "Autopay" computer master file was found to contain 300 instances of duplicated social insurance numbers, and the client index master file contained more than 400 duplications. Reports identifying duplicated social insurance numbers were not being investigated. An Audit Office investigation of a few of these duplicates revealed one client who had received benefits from two different district offices for seven months.

- The Department was not verifying the ongoing accuracy of client file information. Each year the Department requires clients to submit annual returns from which the information on their files is verified. Ten per cent of the annual returns received are then selected for verification during home interviews or office visits. Clients who do not submit annual returns are therefore unlikely to have their file information verified. Some clients may never be contacted after their initial interviews. Hence, it is possible for clients who do not submit annual returns, or who submit inaccurate returns, to continue receiving benefits long after their eligibility has changed.

- The Department allows benefits to be paid to clients before they have provided their social insurance numbers. Social insurance numbers provide a unique identifier, and enable the Department to verify clients' incomes by reference to the Unemployment Insurance Commission and Revenue Canada. The Autopay computer master file does not contain social insurance numbers for 7,000 of the Department's clients. Of these, 1,000 are for clients coded as employable who therefore should have social insurance numbers.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 39

It is recommended that the Department of Social Services improve the way that it identifies clients and their eligibility for benefits under the Social Allowance and Alberta Assured Income for the Severely Handicapped Programs.

The procedures recommended should include identifying and investigating duplicate files, selecting for external verification clients who fail to submit annual returns, and requiring social insurance numbers from clients who receive benefits through the Autopay system.

Computer systems – The Audit Office again concluded that the computer systems provide little help in controlling the programs and their expenditures. There is considerable scope for improving the systems' ability to provide better management control, and to provide district and regional office staff with improved service delivery information. For example:

- When benefits are disbursed through a combination of Autopay cheques, district office cheques and benefit vouchers, the systems could be (but are not) used to check whether monthly benefit maximums are exceeded. Ten per cent of the client files examined by the Audit Office revealed undetected overpayments and a further five per cent lacked evidence to support reported income.

  Extrapolating the overpayments observed suggests that annual overpayments could be approximately $35 million. This figure is consistent with a Departmental study which estimated that undetected overpayments may be as much as $37 million per year. A computer system that could detect when benefit maximums are exceeded could reduce the incidence of overpayments and reduce the clerical checking now performed by district office assessors.

- The systems could be (but are not) used to identify unusual transactions or situations that should be investigated, such as clients who have not submitted annual returns or who have not been contacted recently to verify their eligibility for benefits.

- The systems could be (but are not) used to identify benefit cheques that are not cashed promptly. At present, these cheques are not flagged for attention until six months after they are issued. Non-cashed cheques may indicate clients who no longer need assistance.

- The information produced from the Cost Detail computer file should be (but is not) up-to-date when it is distributed to district, regional and corporate offices. Information on benefits provided to clients cannot be used by district and regional offices to control expenditures if it is out-of-date.

- The systems should (but do not) maintain records of individuals who claim benefits but are ruled to be ineligible. Applicants so disposed, could use the knowledge acquired during an earlier interview to fraudulently claim benefits from another district office, by suppressing the information that caused the first claim to fail.

- The systems could be (but are not) used to determine whether the asset limits of benefit claimants are exceeded. The computer input sheets used to record information on clients in need of regular assistance has a data field for recording the value of the family's assets. The system allows this field to be left blank, thereby negating this useful eligibility check.

- New systems could improve program administration considerably. A recently implemented system at the Millwoods District Office has improved program administration, service delivery and staff morale.

The Department has identified a number of ways in which the existing systems can be improved. It has yet to develop, however, a comprehensive plan to address all aspects of its systems' problems. Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 40

It is recommended that the Department of Social Services establish a plan for improving the systems, including computer systems, used to administer the Social Allowance and Alberta Assured Income for the Severely Handicapped Programs.

The recommended plan should:

- clearly and succinctly describe the nature of the problems to be resolved and the changes required to improve the systems;

- identify the steps necessary to ensure that the improvements will achieve tangible benefits, satisfy the information needs of the Department and support the delivery of the grant programs;

- detail the time-frames and resources necessary to implement the approved improvements;

- set the priority of each desired change since resources, in both quantity and quality, are limited;

- prescribe the manner and frequency of Senior Management involvement.

Monitoring activities – The Department has no mechanism for coordinating the monitoring of social workers done by its various divisions and units. In some areas, monitoring overlaps, while in others the coverage is inadequate. Some district offices conduct 'self-audits' of their own client files.

For the Department's monitoring activities to be effective they need to be coordinated on a Department-wide basis and performed to proper standards. This could improve considerably the assurance (or otherwise) that they provide. Reliable assurance, for example, that programs are being delivered in compliance with legislation and Departmental policies, that program delivery information is reliable, and that the systems that process the information are well controlled, would be of considerable value to Senior Management.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department coordinate and upgrade the way that it monitors the work done by social workers.

Determining clients' income – Benefits under the two Programs are calculated by reference to clients' needs and total family incomes. The Audit Office observed that some social workers do not ask questions, prompted by the claimants' apparent age or health, that could reveal that they are also receiving benefits under other government assistance programs. Old Age Security, Guaranteed Income Supplement and Canada Pension Plan benefits must all be included in total family income when calculating benefit entitlements under the Social Allowance and AISH

Programs. A number of overpayments occurred because other assistance benefits were not included in the calculation of total income.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 41

It is recommended that the Department of Social Services compare client income information for its Social Allowance and Alberta Assured Income for the Severely Handicapped Programs with the similar information that it maintains for other benefit programs, to determine whether the total income figures used to calculate benefit entitlements are correct.

Contracted Agencies – The Department has issued guidelines for negotiating and drafting contracts with non-government agencies that provide government services to the public. The guidelines suggest that contracts require agencies to provide the Department annually with audited financial statements. They are silent on the desirability of obtaining other non-financial accountability information.

Financial statements alone cannot fully satisfy the Department's accountability information needs. They do not provide information about what has happened as a result of the money having been spent. At best, they are an indication of the agency's fiscal health. Other kinds of performance information is necessary if the Department is to establish whether agencies are using the funding they receive for the intended purposes. For example, the Department should obtain information on the quality, quantity and costs of services provided, and the results achieved in relation to the objectives pursued. Requiring contracted agencies to provide non-financial accountability information on the services provided and individuals served should help the Department identify, at an early stage, unsatisfactory performance by individual agencies.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department require contracted agencies to provide periodic performance information on the quality, quantity and costs of the services provided.

Services – The Department needs to define more clearly the services that it offers, either directly or through contracted agencies, to disabled persons. It also needs to prescribe more exactly the objectives that it seeks to achieve by providing these services, and the types of disabilities that make people eligible to receive them.

The Department provides a range of services for the benefit of disabled Albertans. It is not always clear, however, whether certain services should be provided by other government agencies. For example, it may appear more appropriate for services to the sensory impaired to be provided by hospitals, or for some services to the mentally handicapped to be provided by the Department of Community and Occupational Health. In addition, decisions as to whether a person is disabled enough to qualify for services are sometimes inconsistent.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department define more precisely the nature of the services that it offers to the disabled, the objectives that the services are intended to achieve, and the disabilities that render people eligible for the services.

Non-compliance with Computer Equipment Acquisition Policies – The Department's Information Resource Management (IRM) branch twice acquired computer equipment in a way that did not comply with established acquisition policies.

During 1986-87, the Department tendered for 31 IBM/XT personal computers. The winning vendor was the low bidder who was selected on the basis of the original tender specifications, which could only be met by IBM/XTs. After the bid was accepted, however, the IRM Branch substituted an order for 31 IBM PS/2s at an additional cost of approximately $9,000. This order was not re-tendered, even though the vendor notified the IRM Branch that the substitution was contrary to established government policy. The vendor also advised the Branch that, at the time, the IBM PS/2s were technically a less viable answer to the Department's needs then were the XTs.

In a separate instance, the Department acquired lasercard and associated technologies to automate program delivery. The acquisition of the computerized hardware and software also failed to comply with the established procedures of the Government's central procurement agency.

Because I understand that steps have been taken to ensure compliance in future with the Government's procurement policies, no recommendation for corrective action is included herein.

Follow-up of Previous Annual Report Recommendations

Canada Assistance Plan – In my 1985-86 annual report (section 2.23.1), I commented on problems with the systems used by the Department of Social Services (previously the Department of Social Services and Community Health) to prepare claims for federal cost-sharing under the Canada Assistance Plan Agreement. The Department lacked procedures for following up and dealing with temporarily unclaimable expenditures. A sample of transactions examined by the Audit Office had revealed errors that had resulted in claims being understated by $27,000. I recommended that the Department improve the way that it identifies, tracks and claims expenditures that are claimable under the Canada Assistance Plan Agreement.

I am pleased to report that since then, the Department has made significant improvements in the procedures for claiming these expenditures.

Children in Care – In my 1985-86 annual report (section 2.23.1), I commented on weaknesses in the procedures used to monitor whether operators of residential facilities for children in care comply with their funding and other financial obligations.

I am pleased to report that action taken by the Department has effectively eliminated my previously reported concerns. In addition, the Department has obtained Ministerial approval for operators of residential facilities for children in care to retain funds received from the Department that are surplus to their needs, where it appears that such funds are unrecoverable.

2.23.2 Financial audits of the following were also completed for the year ended March 31, 1987:

Child Welfare Family Allowance Trust
Child Welfare Trust
Various Institutions Trust Accounts

2.24 SOLICITOR GENERAL

Of the matters reported to management, the observations below are those which were selected for inclusion in this report.

2.24.1 **Department of the Solicitor General** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the financial controls at the Grande Cache Correctional Centre, the St. Paul Correctional Centre, the Edmonton and Calgary Remand Centres, and the Edmonton Youth Development Centre.

- An examination of the controls and procedures used to administer the Department's Fines Option Program.

- An examination of the Department's internal audit function and correctional management information system.

- An examination of the controls and the methods used to account for revenues from the maintenance of federal and immigration inmates, and the private investigators and security guards system.

- An audit of the Province's annual claim for cost-sharing under the Native Courtworker Program pursuant to an agreement with the Government of Canada.

- An audit of the annual cost-sharing claim under an agreement with the Government of Canada for funding juvenile justice services under the Young Offenders Act.

- An examination of the systems used by the Motor Vehicles Division to control licences and similar revenue-generating forms.

Observations from Financial Audit Work

If senior officials of the Department of the Solicitor General had been aware of certain pending litigation, subsequent court action could have been avoided, thus saving the Province almost $157,000 in legal costs.

Without the knowledge of senior departmental officials, a lawyer was hired at a cost of $28,400 to represent the Department after a compulsory care order, made by the Court on the application by a correctional centre caseworker, was subsequently contested by a Provincially-owned hospital.

The Department lacked the legislative authority to hire the lawyer because under section 2(h) of the Department of the Attorney General Act, the Attorney General is responsible for conducting litigation for Provincial Government departments. In addition, further legal costs of $128,500 awarded by the Court were borne by the Departments of the Solicitor General and Social Services.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department ensure that its staff comply with the requirements of the Department of the Attorney General Act. I understand that the Department has since revised its policies to prevent legal costs being incurred on compulsory care orders.

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.24.1), I commented on problems in connection with inventory counts and inventory reports produced by the Department's newly implemented Motor Vehicles Computer System. I recommended that the Department take immediate action to control licences, to establish procedures governing inventory counts at the Department's regional offices, and to investigate and resolve discrepancies revealed by the audit.

I am pleased to report that action taken by the Department during 1986-87 has effectively eliminated my previously reported concerns.

2.24.2 **Alberta Liquor Control Board** – year ended January 6, 1987

The annual financial audit was extended to include an examination of the controls exercised by the Board over the collection of customs and excise duties and taxes.

2.24.3 Financial audits of the following were also completed for the year ended March 31, 1987:

Motor Vehicle Accident Claims Fund
Alberta Racing Commission
Correctional Institutions Trust Accounts

2.25 TECHNOLOGY, RESEARCH AND TELECOMMUNICATIONS

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.25.1 **The Alberta Government Telephones Commission** – year ended December 31, 1986

The annual financial audit of the Commission and its wholly-owned subsidiaries was extended to include the following:

- An examination of the environmental controls exercised by the Commission over its electronic data processing systems and facilities.
- An examination of how the Commission implemented the recommendations concerning its internal audit function contained in a report issued by the Audit Office in 1982.
- Audits of 'Schedules of Building Operating Costs' for the year ended December 1986 for distribution to tenants who lease space in the Commission's buildings.

Observations from Financial Audit Work

Station equipment – In my 1985-86 annual report (section 2.25.2), I commented on an accounting adjustment in the Commission's December 1985 financial statements that reduced by $42,274,000 the recorded cost of station equipment, and accumulated depreciation. The adjustment resulted from efforts to reconcile station equipment records with engineering and billing records. I expressed concern that several significant variances were not investigated thoroughly before the accounting adjustment was processed.

Station equipment includes telephone sets, radio telephones and other transmitting and receiving apparatus. Its gross value in the Commission's December 1986 financial statements was $378 million.

During 1986, the Commission's internal auditors reviewed the methods used during 1985 to reconcile station equipment records. They concluded that the reconciliation and in-service count procedures had not been adequately defined and documented before the reconciliation process began. They also found that items had been missed during the count, that year-end cut-off had not been controlled properly, and that clerical inaccuracies had occurred on the reconciliation schedules. Overall, the internal auditors concluded that the 1985 reconciliation

procedures did not adequately support the accounting adjustment, nor provide reasonable assurance that station equipment is accurately recorded in the Commission's financial records.

The Commission has since decided to reconcile its station equipment records with its engineering and billing records every year. It has also improved its reconciliation procedures and plans further improvements in future. A management letter to the Commission's President at the conclusion of the 1986 audit stressed the importance of continuing, where necessary, to improve reconciliation procedures, to conduct counts accurately, and to investigate thoroughly any significant discrepancies that arise.

Central office equipment inventories – As part of its reconciliation procedures, in 1986 the Commission physically verified equipment at five of its small and medium-sized central offices. Central office equipment includes switching and circuit equipment located in offices that are geographically central to customer service areas. Its gross value in the Commission's December 1986 financial statements was $1,253 million.

Efforts to reconcile the equipment identified in the offices with the values contained in the Commission's financial records revealed a number of errors and unexplained variances. These and the dollar amounts involved varied proportionally with the size of the offices. The Audit Office concluded that this could indicate substantial errors and variances in connection with the larger central offices.

Accordingly, in a management letter to the Commission's President at the conclusion of the audit, it was recommended that the Commission establish a program to periodically verify and reconcile the existence and carrying value of its central office equipment. Such a program might call for verifications to be performed more frequently at larger offices, and less frequently at smaller offices.

Out-of-Province sales – During 1986, the Commission conducted business that was not in accordance with the apparent intent of its governing legislation and did not account for the results thereof in accordance with generally accepted accounting principles.

The Alberta Government Telephones Act allows the Commission to conduct business only within the Province of Alberta. Despite this, however, during 1986 the Commission's Business Systems Division sold goods and services in other parts of Canada.

Sales of goods and services in other parts of Canada should properly be handled by the Commission's subsidiary company, Alta Telecom International Ltd. The Business Systems Division's out-of-Province sales did not accord with this policy, perhaps partly because the Commission has yet to provide its sales personnel with complete instructions on how to transfer costs to Alta Telecom International Ltd. before making out-of-Province sales.

The Commission accounted for these out-of-Province sales in its financial statements on a cash basis. This means that it recorded as 1986 revenue only the cash that was received during 1986, rather than the sales that were invoiced to customers. This accounting treatment distorts revenues and accounts receivable, and is not in accordance with generally accepted accounting principles. The distortion, however, was not significant enough to cause me to qualify my opinion on the Commission's 1986 audited financial statements.

In a management letter to the Commission's President at the conclusion of the 1986 audit, I made the following recommendations:

Recommendation No. 42

It is recommended that The Alberta Government Telephones Commission:

- *ensure that out-of-Province sales are handled through Alta Telecom International Ltd., and establish procedures for ensuring that the costs of such sales are transferred to Alta Telecom International Ltd., and accounted for properly, and*

- *ensure that out-of-Province sales by Alta Telecom International Ltd., are accounted for in accordance with generally accepted accounting principles, and modify the accounting systems so that the necessary financial information is made available for accounting and management purposes.*

Alta Telecom International Ltd., and Alta Telecom Inc. — These companies are wholly-owned subsidiaries of The Alberta Government Telephones Commission. Alta Telecom International Ltd., handles sales world-wide other than in Alberta and the United States, and Alta. Telecom Inc., handles sales in the United States. Both companies were formed quite recently and have found it difficult to maintain financial and management control systems to cope with the considerable growth in their operations.

For example, improvements are needed in the procedures and records used by both companies to control and account for project costs, billings and collections, bid preparation and market development costs, intercompany reconciliations and out-of-Province sales on behalf of the Commission. In addition, project management reports and monthly financial reports are not produced promptly and do not always provide Management with sufficient and appropriate information.

I acknowledge that it is not unusual for new companies which are experiencing growth to have problems such as these. Nevertheless, if they are not corrected and if growth continues, Management will be increasingly unable to exercise proper control over the companies' operations.

A management letter to the President of the Companies at the conclusion of the audits contained a number of detailed recommendations for improving financial control, which the companies are considering.

Lack of legislative approval for banking arrangements — Section 11 of the Alberta Government Telephones Act requires the Commission to obtain approval from the Lieutenant Governor in Council when entering into banking arrangements. During 1985, however, the Commission opened a United States dollar bank account without obtaining such approval.

The Commission has since obtained the requisite Order in Council.

Observations from Extended Audit Work

Computer recovery plans — The Commission lacks contingency plans for providing adequate computing facilities in the event of a disaster at one of its two electronic data processing centres. This conclusion was reached during the 1986 audit and was confirmed by the Commission's internal audit function in a report dated December 1986. The 1987 audit revealed that excellent progress has been made in developing a recovery plan.

Computer program documentation — Following the December 1986 audit I reported to the Commission that it lacked proper technical documentation covering the design and functions of many of its important computer programs. The absence of such documentation could result

in significant expenditures and operational disruptions when major maintenance or modifications are required in future, particularly if no systems analysts are available who are familiar with the programs.

During 1987, considerable progress was made in reviewing and re-issuing systems and program documentation standards. The standards and the policy established for enforcing them appear satisfactory. Plans are being developed for upgrading the Commission's documentation to comply with these standards and should be finalized by January 1988. The effectiveness of these measures in upgrading the technical documentation covering the design and functions of the Commission's computer programs will be reviewed during future audits.

Integration of computer data – Integrating certain of the Commission's computerized data would enable more efficient and economic use of such data.

The Commission has more than 200 separate computer systems. Each system stores its own data, however, significant advantages could be achieved by systems sharing access to common data.

It is understood that the Commission plans to integrate more of its corporate data. To this end, the Commission has initiated an Information Resource Management project to address problems associated with the storage and use of corporate data.

In a management letter to the Commission's President at the conclusion of the audit, it was recommended that the Commission develop a long-term plan for information resource management and integration of computer data.

I recognize that developing a comprehensive information resource management system is a lengthy undertaking. Future audits will monitor progress in this regard.

Microcomputers – The Commission needs to exercise better control over the acquisition and use of microcomputers.

The Commission's centralized divisions do not conduct post-acquisition reviews to determine whether the microcomputers they purchase are used as intended and realize the expected benefits. In a management letter to the Commission's President at the conclusion of the audit, it was recommended that post-acquisition reviews be conducted and that the use of microcomputers be monitored.

It was also observed during the December 1987 audit that the Commission has not defined the role of microcomputers in its operations. Defining their role could guide the development of strategic and tactical plans within the Commission's operations and would assist in the efficient use of scarce resources.

In a management letter to the Commission's President at the conclusion of the audit, it was recommended that the Commission develop a policy governing the role of microcomputers in its operations.

Internal audit function – In a report following an examination of the Commission's internal audit function in 1982, the Audit Office made nineteen recommendations for improving the ways that the internal audit function pursues its objectives. I am pleased to report that fifteen of those recommendations have since been implemented satisfactorily. Furthermore, attempts are being made to address the concerns underlying the other four recommendations and progress in those areas is satisfactory.

2.25.2 **Alberta Research Council** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendations

My 1985-86 annual report (section 2.25.1) contained two recommendations on the affairs of the Alberta Research Council. One recommendation related to long-standing financial control problems in the systems used by the Council to record and control fixed assets, project contracts and inventories. The other was in connection with an investment in a partnership, the acquisition of which was contrary to the Alberta Research Council Act.

Financial control systems – A number of deficiencies in the Council's financial accounting records were brought to the attention of the Legislative Assembly in the Auditor General's 1979-80 annual report. Successive annual reports since then have acknowledged the Council's efforts to eliminate those deficiencies. At March 31, 1986, three related problem-areas remained, viz. project contracts, fixed assets and inventories.

I am pleased to report that the previously reported financial control deficiencies caused by inadequately drafted project contracts appear to have been resolved. A sample of project contracts examined during the 1986-87 annual audit revealed no problems of this nature. However, the following previously reported deficiencies remain unresolved:

Fixed assets – Uncertainties persist as to the ownership of some of the fixed assets recorded on the Council's balance sheet.

The contracts under which some research projects are carried out allow the Council to retain fixed assets acquired during the projects. Under some contracts, title to such assets passes to the Council automatically on completion of the project. Under others, the passing of title is at the discretion of the project sponsor. The Council's balance sheet does not indicate, and its records cannot identify, which of the fixed assets recorded thereon belong to the Council and which belong to project sponsors.

During 1986-87, in response to concerns raised during previous audits, the Council again attempted to identify which of the fixed assets on the balance sheet belong to the Council, and which belong to project sponsors. The 1986-87 audit revealed, however, that the figures produced to support the fixed assets on the balance sheet at March 31, 1987 contained inaccuracies and were incomplete.

For this reason it was necessary for me to issue a reservation of opinion in my report on the Council's March 31, 1987 financial statements. In that report I stated that I had been unable to determine whether any adjustment may be required to fixed assets and fixed assets equity on the Council's balance sheet to reflect ownership of fixed assets, because the Council had not identified those fixed assets to which it may not have title.

This was the eighth consecutive year that the Auditor General's report on the Council's financial statements has contained a reservation of opinion.

In a management letter to the Council's President at the conclusion of the audit, I again made the following recommendation:

Recommendation No. 43

It is recommended that the Alberta Research Council develop and implement immediately procedures to facilitate the identification of fixed assets that are held but not owned by the Council.

Inventories – Control over the custody and use of materials and supplies inventories continues to be inadequate.

The Auditor General first brought this concern to the attention of the Legislative Assembly in 1980-81. It is a concern that relates not only to the relatively small amount of inventory held in the central stores, but also to the potentially larger quantity of "in the field inventory." This includes materials and supplies purchased directly for projects and departments at the Council's research facilities and project sites throughout the Province.

Management has suggested that the value of "in the field inventory" is immaterial, but has not substantiated this view. Accordingly, in a management letter to the Council's President at the conclusion of the audit, it was again recommended that the Council ascertain the ongoing value of "in the field inventory" and establish a suitably cost-effective system for controlling its custody and use.

Partnership investment – During 1985-86, the Council acquired an interest in a partnership formed to invest in equity securities of Alberta enterprises which are at the conceptual, research and development, or prototype stages of product development. As a limited partner in the partnership, the Council advanced $100,000 and undertook to advance a further $200,000 over a three year period.

In investing in the partnership, the Council contravened section 4 of the Alberta Research Council Act. This section limits the Council to conducting research, providing advice to the Executive Council, and other activities authorized by the Lieutenant Governor in Council. In my 1985-86 annual report I recommended that the Council either divest itself of the investment in the partnership, or seek the necessary legislative amendments to authorize its retention.

The Council retained the investment during 1986-87 but advanced no further money to the partnership. The Council has informed the Audit Office that legislative amendments will be made to authorize retention of the investment.

2.25.3 Financial audits of the following were also completed:

- Department of Technology, Research and Telecommunications – year ended March 31, 1987
- Alberta Heritage Foundation for Medical Research – year ended March 31, 1987
- The Alberta Educational Communications Corporation – year ended March 31, 1987
- The Alberta Government Telephones Employees' Group Life Insurance Trust Account – year ended December 31, 1986
- The Alberta Government Telephones Employees' Pension and Death Benefit Fund – year ended December 31, 1986
- The Alta Telecom International Ltd. Employees' Group Life Insurance Trust Account – period ended December 31, 1986
- The Alta Telecom International Ltd. Employees' Pension and Death Benefit Fund – period ended December 31, 1986

2.26 TOURISM

Of the matters reported to management at the conclusion of the following audit, none warrant inclusion in this report.

2.26.1 **Department of Tourism** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the appropriateness and quality of the system and methods used by the Department to authorize grant payments and to monitor for compliance with governing legislation.

2.27 TRANSPORTATION AND UTILITIES

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.27.1 **Department of Transportation and Utilities** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the financial control exercised over, and the methods used to account for, revenues arising from the issue of licenses and permits by the Department's Motor Transport Branch.

- An examination of procedures used by the Department to collect and account for airport revenues, and of the information provided to support decisions on airport fees and airport construction.

- An examination of the procedures used by the Department to provide Management with information on the operation of grant programs in the Gas Distribution Branch and the Municipal Utilities Division.

Airport user fees – Ongoing review of airport user fee rates is not supported by adequate documentary evidence.

In the absence of formal procedures to compile data, and evidence that appropriate data is assembled, there can be no assurance that the Minister is provided consistently with adequate information to assist in the determination of any necessary changes to existing fee rates.

In a management letter to the Deputy Minister at the conclusion of the examination, it was recommended that predetermined information be documented as part of the required reviews of fees. It was suggested that information include the total cost of providing airport facilities, the potential economic or social impacts of changes in fees for each type of airport user, and the effect on the Department's revenues of a change in airport user fees.

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (section 2.27.1), I reported that the annual audit had revealed that the previously reported deficiencies in the Department's fixed asset control systems had continued. There were still no Departmental guidelines governing the control of fixed assets in the regions, districts and branches, nor were there effective procedures for identifying and dealing with lost, obsolete and surplus assets. I recommended that the Department expedite completion of plans to implement its own standards and procedures to control and account for fixed assets.

The Department has indicated that control over its fixed assets is under review and improvements will be implemented as resources permit. As most of the assets under the control of the Department are held in the Transportation Revolving Fund and are controlled adequately, the recommendation is not repeated.

2.27.2 **Gas Alberta Operating Fund** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendations

In my 1985-86 annual report (section 2.29.1), I reported on two ways in which it appeared that the operations of the Fund were not complying with, or were contributing to non-compliance with, the prevailing legislative authorities.

I recommended that the Department clarify the applicability of the Utility Companies Income Tax Rebates Regulation relative to the Fund and rural gas distributors. I suggested that if it is determined that the Regulations apply, then periodic billings to distributors should show the Provincial discount that is passed on to them.

During 1987, a new Regulation was issued which allows Provincial discounts passed on to distributors to be communicated in writing, but does not require them to be shown on billings. This effectively removes my concern.

With regard to expenditures of the Fund's retail billing service and the accounting concept of matching revenues with related costs, I recommended that the Department pay out of the Fund costs associated with any agreement entered into under section 29(1)(d) of the Rural Gas Act, or consider amending the Act. In a management letter to the Deputy Minister at the conclusion of the 1986-87 audit the recommendation was repeated. The Department has indicated that a decision will be made shortly.

2.27.3 **Transportation Revolving Fund** – year ended March 31, 1987

The annual financial audit was extended to include an examination of the systems and procedures used by the Department to safeguard and account for gravel and petroleum inventories.

Observations from Extended Audit Work

Gravel inventory – There are no controls for ensuring that gravel usage is reported and charged to the Department's jobs in the correct fiscal period.

The Revolving Fund acquires the gravel that the Department uses to maintain and construct roads. The inventory of unused gravel (approximately $30 million) is held in gravel piles around the Province.

The examination revealed that district offices are not reporting consistently the volumes and dates of gravel usage. This means that at any point in time the Fund's inventory of gravel is overstated and the cost of the Department's jobs is understated. Ultimately, when gravel piles are exhausted, district offices do report fully so that the Fund can eliminate inventory. Because of the delay, however, this may not be done in the correct fiscal year.

The Audit Office believes that gravel removed from stockpiles should be measured. Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department review the procedures for recording gravel in each District to ensure that all gravel used is charged to jobs on a timely basis.

2.27.4 **Rural Electrification Revolving Fund** – year ended March 31, 1987

Observations from Financial Audit Work

There is uncertainty as to the status of certain loans carried on the Fund's balance sheet.

The assets of the Fund include loans totalling almost $25.9 million advanced to rural electrification associations and power companies under Section 30, Part 2 of the Rural Electrification Revolving Fund Act. These loans are interest free and were advanced to enable the associations and power companies to reduce the capital costs of providing electrical services to Alberta farmers. However, these loans are only repayable in certain circumstances or if certain events occur. Accordingly, some of the loans may not be repaid, in which case it may be incorrect to treat them as assets of the Fund; it may be more correct to treat them as conditional grant expenditures.

In a management letter to the Deputy Minister of Transportation and Utilities, I made the following recommendation:

Recommendation No. 44

It is recommended that the Department of Transportation and Utilities liaise with the Treasury Department to determine the nature and ultimate collectibility of funds advanced under Part 2 of the Rural Electrification Revolving Fund Act.

2.27.5 Financial audits of the following were also completed:

Natural Gas Rebates Fund – year ended March 31, 1987
Alberta Electric Energy Marketing Agency – year ended March 31, 1987
Alberta Resources Railway Corporation – year ended December 31, 1986

2.28 TREASURY

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.28.1 **General Revenue Fund** – year ended March 31, 1987

The financial statements of the General Revenue Fund report the revenues and expenditures of the twenty-five government departments and the four Legislative Offices, together with the financial assets and liabilities that they administer.

Audit activities undertaken for each department and Legislative Office are reported in sections 2.3 to 2.28.

2.28.2 **Treasury Department** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the system and procedures used by the Department to collect and account for pari-mutuel tax.

- An examination of the system and procedures used by the Department's Corporate Tax Administration Division to ensure that corporate entities operating in Alberta are on the tax roll and to control revenue recording and collection.

- Audits of more than one hundred claims under the Canada-Alberta subsidiary agreement on agricultural processing and marketing, for cost-sharing nutritive processing expenditures.

- An examination of the centrally exercised controls within the government's payment and general ledger accounting system (DFS/CFS).

- An examination of travel expenses borne by the General Revenue Fund in 1986-87.

- An examination of the financial information contained in several prospectuses issued by the Province of Alberta for the purpose of raising funds outside Canada.

Observations from Extended Audit Work

Payment and general ledger accounting system (DFS/CFS) – A formal post- implementation review of the new DFS/CFS System has not yet been performed.

An examination of the centrally exercised controls within the government's payment and general ledger accounting system has disclosed that controls are adequate to ensure that transactions captured by the system will be properly accounted for.

The examination revealed that the Office of the Controller has not yet initiated a formal post implementation review of the new system. Review is required by government policy and includes an accounting for the funds expended and the documenting of progress in achieving the anticipated benefits to be derived from the development and implementation of the system.

I believe that the Treasury Department should initiate a review of the DFS/CFS by persons independent of the systems' development. An independent review before implementing further change could provide information which should be considered in deciding the future direction of the systems' development.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the examination, I made the following recommendation:

Recommendation No. 45

It is recommended that the Treasury Department initiate a post implementation review of the payment and general ledger accounting system (DFS/CFS) by persons independent of the systems' development and before any significant revision to the system.

Follow-up of Previous Annual Report Recommendations

Tax expenditures – Budgeting and reporting some of the Province's program costs as tax expenditures distorts reported revenues and expenditures. It also weakens significantly the legislative and administrative control exercised over these costs.

Tax expenditures differ from normal budgetary expenditures in the way that they are paid. Instead of being paid directly to or on behalf of the beneficiaries of the programs, they are deducted by the beneficiaries from taxes and royalties that are payable to the Province. In other words, they are the cost to the Province of the various exemptions, deductions and credits that taxpayers deduct from their Provincial taxes.

Tax expenditures weaken the control exercised over expenditures. Normal budgetary expenditures undergo a rigorous legislative review process before their appropriation from the General Revenue Fund is approved by the Legislative Assembly. Then, before payments are disbursed, they must be approved by expenditure officers and accounting officers, and are subject to the Treasury Department's predisbursement expenditure controls. With tax expenditures, neither of these controls are exercised, and post-disbursement controls are inevitably less rigorous.

My concern in this regard should not be interpreted as disapproval of using tax expenditures. On the contrary, I acknowledge that tax expenditures are often a very expedient and efficient

way of delivering program benefits. My concern centres around the effect they have in Alberta on the budgeting and reporting of expenditures. For this reason, I recommended in my 1985-86 annual report (section 2.28.2) that the Treasury Department treat tax expenditures in the same manner as normal government expenditures for both budgeting and financial reporting purposes.

The Provincial Treasurer responded to this recommendation in a report to the Public Accounts Committee as follows:

> "As was stated last year, there is no clear distinction to determine which of these programs are "tax expenditures" and which are "revenue abatements". It can also be said that these tax credits and deductions relate to the generation of tax revenue and, therefore, should be applied to reduce this revenue.
>
> Tax expenditures are disclosed in accordance with legislation and there are no plans to change the statutory requirements respecting tax expenditures."

This response fails to address my two main concerns. Any difficulties in distinguishing between tax expenditures and revenue abatements can surely be overcome if more meaningful financial reporting is desired. Furthermore, while it is true that present legislation does not require tax expenditures to undergo the same budgetary process as normal expenditures, it is equally true that present legislation does not require tax expenditures to forego this process.

Concern has been voiced in a number of jurisdictions that the increasing use of tax expenditures by governments is an unfortunate trend. For example, the Government of Canada is currently reviewing the findings of a joint study by the Office of the Auditor General of Canada and the United States General Accounting Office. The study was designed to identify the needs of users of government financial information. Among its conclusions were that all major tax expenditures should be disclosed and identified as such in annual financial statements.

In times of increasing taxes and budgetary restraint, legislative and administrative control over all expenditures is increasingly important. Yet in 1986-87, expenditures amounting to nearly 8% of the Province's consolidated expenditures escaped the full rigor of legislative and pre-disbursement expenditure control.

For these reasons, I have urged the Provincial Treasurer to reconsider the following recommendation:

Recommendation No. 46

> *It is recommended that the Treasury Department treat tax expenditures in the same manner as normal government expenditures for both budgeting and financial reporting purposes.*

2.28.3 **Alberta Heritage Savings Trust Fund** – year ended March 31, 1987

Follow-up of Previous Annual Report Recommendation

In my 1985-86 annual report (subsection 2.28.3), I suggested that the accounting practice of showing the cumulative amount of the Heritage Fund's non-recoverable capital expenditures on its balance sheet as "deemed assets" is potentially misleading. Deemed assets are not assets of the Fund nor, in many cases, are they assets of the Province. Also, in certain cases, the deemed assets no longer exist.

I recommended that the Provincial Treasurer eliminate the cumulative amount of non-recoverable expenditures on capital projects (deemed assets) from the balance sheet of the Fund.

In response to this recommendation, the Provincial Treasurer stated in a report to the Public Accounts Committee:

> "As was stated in the response to a similar recommendation that appeared in last year's report, the capitalization of non-recoverable expenditures from the Capital Projects Division of the Heritage Fund and the presentation in the financial statements as deemed assets represents public policy established by statute.
>
> There are no generally accepted accounting principles appropriate for expenditures of this type. The accounting policy adopted for these expenditures is considered to be appropriate for the Fund. Furthermore, the Government does not agree with the Auditor General's opinion that, "Despite the disclosure in the financial statements, the potential for misleading the reader of the financial statements as to the Fund's real value exists and continues to grow."
>
> Nevertheless, in an effort to address the Auditor General's concern, the way in which deemed assets are disclosed in the financial statements of the Fund was changed in the statements of the Fund for the fiscal year ended March 31, 1987. The presentation was changed to show separate totals for deemed assets and other assets and also for fund equity and deemed equity represented by deemed assets. The financial statements of the Fund are considered to provide information to their reader that is relevant and clearly presented."

Although changes were made to the Fund's March 31, 1987 financial statements to reduce fund equity by the cumulative amount of non-recoverable amounts expended by the Capital Projects Division and to further segregate and clarify the nature of the deemed assets, the financial statements remain potentially misleading because "deemed assets" and "deemed equity represented by deemed assets" appear on the balance sheet. The concern still exists that the deemed assets, amounting to approximately $2.6 billion at March 31, 1987, will be perceived to be assets of value to the Fund.

The practice of including deemed assets and deemed equity represented by deemed assets on the Fund's balance sheet is not appropriate and not in accordance with generally accepted accounting principles. Many accounting and auditing pronouncements, including the Canadian Institute of Chartered Accountants (CICA) Handbook, provide support for this view. In particular, the Public Sector Accounting and Auditing Committee (PSAAC) of the CICA issued, in November 1986, Statement 3 - General Standards of Financial Statement Presentation for Governments which requires a government's summary financial statements to present the substance of transactions and events in accordance with their financial reality.

The Audit Office's concern with respect to the reporting of deemed assets has continued to grow since the matter was first reported in the 1978-79 annual report. Considering the potentially misleading nature of the presentation of the deemed assets and recent statements from PSAAC which have further clarified presentation standards and reporting requirements, I included a reservation of opinion in my auditor's report on the Fund's March 31, 1987 financial statements as follows:

> "The practice of including deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate because deemed assets are not assets of the Fund nor is the presentation in accordance with generally accepted accounting principles. Deemed assets represent amounts expended which are not recoverable by the Fund and where assets do exist, they belong to other organizations. Although it has been interpreted by management that the Alberta Heritage Savings Trust Fund Act requires the disclosure of deemed assets on the balance sheet, the financial position of the Fund would be better understood if the deemed assets and deemed equity represented by deemed assets which both amount to $2,629,287,000 were not included."

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue, I stated that a reservation of opinion would not be required if the deemed assets and deemed equity represented by deemed assets were removed from the balance sheet. I also made the following recommendation:

Recommendation No. 47

It is recommended that the Provincial Treasurer eliminate deemed assets and deemed equity represented by deemed assets from the balance sheet of the Alberta Heritage Savings Trust Fund.

In the management letter, I indicated that it would still be possible to reflect the Fund's accomplishments by continuing to disclose the cumulative amounts spent on each capital project in a schedule to the financial statements or by way of a note.

2.28.4 **Treasury Branches Deposits Fund** – year ended March 31, 1987

The annual financial audit was extended to include the following:

- An examination of the systems used to collect and accumulate management information on loans and loan interest revenue, and on deposits and deposit interest expense.

- An examination of the system and procedures used by Management to control non-interest costs.

Observations from Extended Audit Work

Asset and Liability Management System – Loan and deposit information is not available on a current basis.

Summaries of loans and deposits by maturity dates and information of weighted average interest rates is available only on a monthly basis and for mortgage loans only on a quarterly basis. The result of this is that the Rates Committee of Treasury Branches, when setting rates on a weekly basis may only be able to review information which is several weeks old. Treasury Branches system development plans provide for the implementation of a new system which should be capable of addressing this concern. However, the development plans do not describe in detail the requirements for asset and liability management information.

In a management letter to the Superintendent at the conclusion of the annual audit, it was recommended that asset and liability management information be made available on a more current basis for the weekly rate setting process. It was also recommended that plans to implement the new loans and deposits system describe adequately the requirements for asset and liability management information.

The Superintendent has since indicated that these recommendations will be considered.

Follow-up of Previous Annual Report Recommendation

Accounting for loan losses – In my 1985-86 annual report, I reported that the Fund had accounted for and disclosed loan losses in its financial statements in accordance with an averaging formula used by Canadian banks. This formula reduced the impact of high loan losses during the recent economic downturn and also deferred the effect of the downturn to future years. Furthermore, under conditions which combine asset growth and continuing high loan losses, the use of the averaging formula could result in charges to income that exceed the actual loan losses for a particular year.

To improve disclosure of the financial position and operations of the Fund, I recommended that the Fund change its accounting policy with respect to loan losses and return to the use of generally accepted accounting principles (GAAP). GAAP provides that loan losses are recognized and charged against income in the year in which they occur.

I am pleased to report that when preparing its financial statements for the year ended March 31, 1987, the Fund adopted this recommendation.

Observations from Financial Audit Work

Non-Performing Loans – In order to achieve repayment of the loan principal, the Fund may reduce the rate of interest on a loan to a rate which the debtor can service. The fact that the debtor can then service the debt is taken into consideration when establishing the provision for loan losses, and in determining the status of the loan as current or non-current. Reduced rate loans are not separately disclosed in the statement of assets and liabilities.

Separate disclosure of non-performing loans is required for financial institutions covered by the Bank Act. In my view, such information would improve significantly disclosure of the results of the Fund's operations and the effect of non-performing loans on the assets of the Fund.

Accordingly, in a management letter to the Superintendent at the conclusion of the annual audit, it was recommended that information regarding the principal outstanding and interest earned on non-current and renegotiated reduced rate loans be assembled, and consideration be given to separate disclosure of non-performing loans.

Management's response to the recommendation indicated that they did not agree with the necessity or desirability of separate disclosure of non-performing loans in the financial statements of the Fund.

2.28.5 Financial audits of the following were also completed:

Land Purchase Fund – year ended March 31, 1987
Treasury Revolving Fund – year ended March 31, 1987
Alberta Capital Fund – year ended March 31, 1987
Alberta Heritage Foundation for Medical Research Endowment Fund – year ended March 31, 1987
Alberta Heritage Scholarship Fund – year ended March 31, 1987
Alberta Provincial Corporation Loan Fund – year ended March 31, 1987
Alberta Risk Management Fund – year ended March 31, 1987
Farm Credit Stability Fund – year ended March 31, 1987
Pension Fund – year ended March 31, 1987
Small Business Term Assistance Fund – year ended March 31, 1987
Utility Companies Income Tax Rebates Fund – year ended March 31, 1987
Alberta Municipal Financing Corporation – year ended December 31, 1986
Bond and Coupon Accounts:
- Matured Interest – year ended March 31, 1987
- Unpresented Debentures – year ended March 31, 1987

Consolidated Cash Investment Trust Fund – year ended March 31, 1987
General Trust Account – year ended March 31, 1987
Payroll Deductions Trust – year ended March 31, 1987
A.L. Sifton Estate – year ended March 31, 1987
Ultimate Heir Trust Fund "A" – year ended March 31, 1987
Ultimate Heir Trust Fund "B" – year ended March 31, 1987

2.29 OTHER

This section of the Auditor General's report deals with audits of various entities which have not been dealt with in the foregoing sections. Essentially, these are irrigation districts, section 12(b) audits and the Province's lottery operations.

Of the matters reported to management, the observations and recommendations below are those which were selected for inclusion in this report.

2.29.1 Irrigation Districts

The Auditor General is auditor of fourteen irrigation districts operating under the authority of the Irrigation Act, Chapter I-11, Revised Statutes of Alberta 1980. These irrigation districts are not provincially owned but receive cost-sharing funding for capital improvements from the Province of Alberta, particularly from the Alberta Heritage Savings Trust Fund. The Auditor General is appointed auditor of these districts under section 43 of the Irrigation Act. The irrigation districts are:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

The financial statements of the fourteen irrigation districts were audited to various year-ends within the 1986-87 fiscal year.

The irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Accordingly, their audited financial statements are not published in the public accounts of the Province.

Observations from Financial Audit Work

Eastern Irrigation District – The audit for the year ended December 31, 1986 revealed that expenditure irregularities appear to have occurred at the District. Following an investigation by the Royal Canadian Mounted Police, a former senior official has been charged under the provisions of the Criminal Code with defrauding the District of approximately $1,000. As this matter is pending, I must withhold further comment at this time.

2.29.2 Section 12(b) Audits

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Select Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1986-87 fiscal year, the Audit Office audited the financial statements of the following pursuant to section 12(b):

ACCESS Charitable Foundation of Alberta
Alberta Children's Hospital Research Centre
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Rehabilitation Hospital Employee Benevolent Fund
Glenrose Rehabilitation Hospital Employee Charities Fund
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
Technical Resource Centre Society for Technology and Rehabilitation
The Friends of University Hospitals
The Trustees of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Employees' Benevolent Fund
University of Alberta Hospitals Employees' Charities Trust

Observations from Financial Audit Work

The Trustees of the Academic Staff Benefits Plans of The University of Alberta — The Trustees need to establish procedures for obtaining assurance that claims paid on their behalf are in compliance with the terms of the benefit plans.

The Trustees have entered into an agreement with an insurance company whereby the company reviews, processes and pays benefit claims on their behalf. The Trustees do not, however, have procedures for checking that the company is performing these activities in accordance with the terms and conditions of the benefit plans.

This concern was brought to the attention of the Trustees during previous annual audits. In a management letter to the Trustee's Chairman at the conclusion of the June 1986 audit, it was again recommended that procedures be established for obtaining assurance (for example, by reviewing samples of the claims processed and paid) that claims paid on the Trustees' behalf are in compliance with the benefit plans.

Reservations in audit reports — My reports on the financial statements of

ACCESS Charitable Foundation of Alberta,
Foothills Hospital Foundation,
Grande Prairie Regional College Foundation,
Olds College Foundation,
Sulphur Development Institute of Canada (SUDIC),
Technical Resource Centre Society for Technology and Rehabilitation and
The Friends of University Hospitals

contained reservations of opinion because, as explained in section 3.2.2 of this report, they receive donation or similar revenue which is not susceptible of audit verification.

2.29.3 Lottery Operations

Follow-up of Previous Annual Report Recommendations

The manner in which the proceeds of the major lotteries currently operating in Alberta are dealt with, the payments of administration costs and prize money therefrom, and the distribution of net profits earned from those lotteries, lack appropriate legislative authority.

This matter has been reported in the last three annual reports. In my 1985-86 annual report (section 2.30.3), I again commented on the manner in which the proceeds of the major lotteries currently operating in Alberta are dealt with. These are the Provincial, Superloto, Lotto 6/49,

Western Express and Lotto West lotteries and, in 1986-87, the Instant Lottery. The licence issued pursuant to the Interprovincial Lottery Act purports to authorize the Western Canada Lottery Corporation, a Winnipeg-based organization, to act on behalf of the Province as general administrator of the above lotteries. As general administrator, its activities include receiving the proceeds of ticket sales, paying administration costs and prize money, distributing net profits and investing any undistributed funds.

A legal opinion obtained by the Audit Office indicates that the proceeds from these lotteries fall within the definition of "public money" that should be paid into the Province's General Revenue Fund. The Interprovincial Lottery Act makes no "special disposition" that would allow the proceeds to remain outside the General Revenue Fund, nor does it empower the Minister to do so through the licence.

I recommended that the Minister responsible for administering the Interprovincial Lottery Act direct that the proceeds from the Province's lottery operations be paid into the General Revenue Fund as required by the Financial Administration Act, and that administration costs, prize monies and profit distributions be paid therefrom pursuant to the authority of appropriations of the Legislature. Alternatively, I recommended that the Minister seek an amendment to the Interprovincial Lottery Act to allow lottery proceeds to remain outside of the General Revenue Fund.

In a report to the Public Accounts Committee, the Provincial Treasurer responded to my recommendations by stating that legislative amendments to address these and other issues are being developed.

In a management letter to the Deputy Minister at the conclusion of the 1986-87 annual audit, I repeated my previous recommendation.

Recommendation No. 48

It is recommended that the Minister responsible for administering the Interprovincial Lottery Act:

- *direct that the proceeds from the Province's lottery operations be paid into the General Revenue Fund as required by the Financial Administration Act, and that administration costs, prize monies and profit distributions be paid therefrom pursuant to the authority of appropriations of the Legislature; or*

- *seek an amendment to the Interprovincial Lottery Act to allow lottery proceeds to remain outside of the General Revenue Fund.*

ACCESS Charitable Foundation of Alberta
Alberta Children's Hospital Research Centre
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Rehabilitation Hospital Employee Benevolent Fund
Glenrose Rehabilitation Hospital Employee Charities Fund
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
Technical Resource Centre Society for Technology and Rehabilitation
The Friends of University Hospitals
The Trustees of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Employees' Benevolent Fund
University of Alberta Hospitals Employees' Charities Trust

Observations from Financial Audit Work

The Trustees of the Academic Staff Benefits Plans of The University of Alberta – The Trustees need to establish procedures for obtaining assurance that claims paid on their behalf are in compliance with the terms of the benefit plans.

The Trustees have entered into an agreement with an insurance company whereby the company reviews, processes and pays benefit claims on their behalf. The Trustees do not, however, have procedures for checking that the company is performing these activities in accordance with the terms and conditions of the benefit plans.

This concern was brought to the attention of the Trustees during previous annual audits. In a management letter to the Trustee's Chairman at the conclusion of the June 1986 audit, it was again recommended that procedures be established for obtaining assurance (for example, by reviewing samples of the claims processed and paid) that claims paid on the Trustees' behalf are in compliance with the benefit plans.

Reservations in audit reports – My reports on the financial statements of

ACCESS Charitable Foundation of Alberta,
Foothills Hospital Foundation,
Grande Prairie Regional College Foundation,
Olds College Foundation,
Sulphur Development Institute of Canada (SUDIC),
Technical Resource Centre Society for Technology and Rehabilitation and
The Friends of University Hospitals

contained reservations of opinion because, as explained in section 3.2.2 of this report, they receive donation or similar revenue which is not susceptible of audit verification.

2.29.3 Lottery Operations

Follow-up of Previous Annual Report Recommendations

The manner in which the proceeds of the major lotteries currently operating in Alberta are dealt with, the payments of administration costs and prize money therefrom, and the distribution of net profits earned from those lotteries, lack appropriate legislative authority.

This matter has been reported in the last three annual reports. In my 1985-86 annual report (section 2.30.3), I again commented on the manner in which the proceeds of the major lotteries currently operating in Alberta are dealt with. These are the Provincial, Superloto, Lotto 6/49,

Western Express and Lotto West lotteries and, in 1986-87, the Instant Lottery. The licence issued pursuant to the Interprovincial Lottery Act purports to authorize the Western Canada Lottery Corporation, a Winnipeg-based organization, to act on behalf of the Province as general administrator of the above lotteries. As general administrator, its activities include receiving the proceeds of ticket sales, paying administration costs and prize money, distributing net profits and investing any undistributed funds.

A legal opinion obtained by the Audit Office indicates that the proceeds from these lotteries fall within the definition of "public money" that should be paid into the Province's General Revenue Fund. The Interprovincial Lottery Act makes no "special disposition" that would allow the proceeds to remain outside the General Revenue Fund, nor does it empower the Minister to do so through the licence.

I recommended that the Minister responsible for administering the Interprovincial Lottery Act direct that the proceeds from the Province's lottery operations be paid into the General Revenue Fund as required by the Financial Administration Act, and that administration costs, prize monies and profit distributions be paid therefrom pursuant to the authority of appropriations of the Legislature. Alternatively, I recommended that the Minister seek an amendment to the Interprovincial Lottery Act to allow lottery proceeds to remain outside of the General Revenue Fund.

In a report to the Public Accounts Committee, the Provincial Treasurer responded to my recommendations by stating that legislative amendments to address these and other issues are being developed.

In a management letter to the Deputy Minister at the conclusion of the 1986-87 annual audit, I repeated my previous recommendation.

Recommendation No. 48

It is recommended that the Minister responsible for administering the Interprovincial Lottery Act:

- *direct that the proceeds from the Province's lottery operations be paid into the General Revenue Fund as required by the Financial Administration Act, and that administration costs, prize monies and profit distributions be paid therefrom pursuant to the authority of appropriations of the Legislature; or*

- *seek an amendment to the Interprovincial Lottery Act to allow lottery proceeds to remain outside of the General Revenue Fund.*

2.30 CROWN-CONTROLLED ORGANIZATIONS

2.30.1 Crown-controlled organizations are defined by section 1(b) of the Auditor General Act. Essentially, an entity qualifies to be so designated where more than 50% but less then 100% of the voting shares are owned by the Crown or where less than a majority of its members or directors can be appointed by the Government but the entity is responsible for the administration of public money or Crown assets.

Crown-controlled organizations operating during the 1986-87 fiscal year were:

North West Trust Company
354713 Alberta Ltd.

The Auditor General is not the auditor of these entities. His responsibilities relating to the financial statements of these entities are limited to the review functions described in section 16 of the Auditor General Act.

SECTION 3 - REPORTING CRITERIA, RESERVATIONS AND PUBLIC ACCOUNTS

3.1 REPORTING CRITERIA AND TYPES OF AUDIT

3.2 RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS

3.3 AUDIT OF THE PUBLIC ACCOUNTS

3.4 CONSOLIDATED OPERATING STATISTICS

3.5 COMMENTARY ON THE PUBLIC ACCOUNTS

3.1 REPORTING CRITERIA AND TYPES OF AUDIT

3.1.1 Section 25 of the Auditor General Act allows me to exclude from this report audit findings, conclusions and recommendations which are, in my opinion, immaterial or insignificant. My reporting on the work of the Audit Office is, thereby, focussed on the more significant matters. When determining significance, I take into account the nature, materiality, and sensitivity of the matter, and its significance relative to the individual entity and the Government as a whole.

Recommendations arising from the work of my Office which I particularly want to bring to the attention of the Legislative Assembly are numbered and shown in italic type.

Communication of Audit Observations

3.1.2 The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

At the conclusion of all audits, meetings (exit conferences) were held to discuss audit findings and concerns. The nature of the matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, observed instances of non-compliance with legislative and other authorities, system deficiencies, control weaknesses, and related recommendations. These meetings were attended by representatives of the Audit Office and senior financial and other management officials of the audited entity.

The main purposes of these meetings were to ensure that senior management understood the audit findings, to discuss recommendations for corrective action, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by the Audit Office to all who attended, thereby minimizing the risk of any misunderstanding concerning observations raised and action promised.

Audit observations and recommendations judged to be of concern to senior management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister and to the Secretary to the Treasury Board, except for those addressed to Provincial agencies which are referred to in section 2(5) of the Financial Administration Act.

Subsequently, using the criteria outlined in 3.1.1 above, the observations and recommendations considered important enough to be reported to the Legislative Assembly were selected for inclusion in this report. In the course of preparation, the report was reviewed by the Government's Audit Committee, of which the Provincial Treasurer is a member. Finally, before the annual report was published, all ministers and deputy ministers or chief executive officers were informed of observations contained in the report that relate to areas for which they are responsible.

Government response

3.1.3 The Provincial Treasurer on behalf of the Government has prepared a report addressed to the Select Standing Committee on Public Accounts which contains responses to the numbered recommendations in my report for the 1985-86 fiscal year. Many of the responses are referred to throughout this report.

Non-compliance with Legislative Authorities

3.1.4 Non-compliance with legislative authorities are reported in this report pursuant to sections 19(2)(a) and (b) of the Auditor General Act.

All transactions and activities examined in the course of auditing departments, funds and Provincial agencies in accordance with generally accepted auditing standards are also examined to determine whether they comply with the significant financial and administrative authorities that govern them. These authorities include primary authorities such as statutes, and subordinate authorities emanating therefrom such as regulations, Orders in Council, contracts and conditional grant agreements. Subordinate authorities are also examined to determine whether they have been properly issued in accordance with the provisions of a relevant primary or more senior subordinate authority.

In my opinion, except for the instances of non-compliance described in this report, those transactions and activities examined in the course of auditing departments, funds and Provincial agencies complied, in all significant respects, with relevant financial and administrative authorities. The instances of non-compliance reported herein are only those that were observed and which I believe are significant enough to be brought to the attention of the Legislative Assembly.

Types of Audit

3.1.5 Throughout section 2 of this report, the term "financial audit" is used repeatedly. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, the financial audit was extended to include examining systems beyond what was considered necessary to contribute to the expression of an opinion on the financial statements. These audit extensions are identified in section 2 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1986-87 have been reported to management.

3.2 RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS

3.2.1 Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual reports of reservations of opinion in reports issued on financial statements. For the 1986-87 year of the Crown, sixteen such reservations were issued; viz:

3.2.2 Thirteen reservations of opinion were because the financial statements of:

- ACCESS Charitable Foundation of Alberta,
- Alberta Cancer Foundation,
- Alberta Hospital Edmonton Foundation,
- Alberta Sport Council,
- Foothills Hospital Foundation,
- Glenbow-Alberta Institute,
- Grande Prairie Regional College Foundation,
- Olds College Foundation,
- Sulphur Development Institute of Canada (SUDIC),
- Technical Resource Centre Society for Technology and Rehabilitation,
- The Friends of University Hospitals,
- The Recreation, Parks and Wildlife Foundation, and
- University Hospitals Foundation

include donations or similar revenue which cannot be audited for completeness in accordance with generally accepted auditing standards.

These reservations of opinion do not reflect adversely on the records or financial statements of the above entities. Rather, they are a product of the nature of the revenue. For most types of revenue, an auditor can calculate or anticipate the completeness of recorded revenue by reference to the auditee's production or sales records, or by independent verification.

Where donations and certain other types of revenue are received from the public in significant or potentially significant amounts, however, auditors can often do no more than examine the amounts that are recorded as received. They cannot verify that all such revenue received has been recorded.

In these circumstances, generally accepted auditing standards require auditors to express a reservation of opinion on the financial statements by drawing attention to the nature of the revenue and describing the limited audit work that was possible.

3.2.3 One reservation of opinion was because the financial statements of the Alberta Heritage Savings Trust Fund are not prepared in accordance with acceptable accounting principles. As discussed more fully in section 2.28.2 of this report, the practice of including deemed assets, and deemed equity represented by deemed assets, on the Heritage Fund's balance sheet is inappropriate and not in accordance with generally accepted accounting principles. Deemed assets are not assets of the Heritage Fund.

3.2.4 One reservation of opinion was because I was unable to satisfy myself concerning the ownership of certain assets included in the financial statements of the Alberta Research Council. This matter is discussed more fully in section 2.25.2 of this report.

3.2.5 One reservation of opinion was because I was unable to satisfy myself concerning the value of inventories of merchandise and supplies included in the financial statements of the Southern Alberta Institute of Technology for the year ended June 30, 1986.

3.2.6 In all other cases, I was able to report without reservation that the financial statements examined present fairly the financial position of the entity at March 31, 1987 (or such other accounting period ended within the year ended March 31, 1987) and the results of its operations for the periods covered by the statements, in accordance with generally accepted accounting principles or other appropriate disclosed basis of accounting.

3.3 AUDIT OF THE PUBLIC ACCOUNTS

3.3.1 The public accounts of the Province are published in two volumes. Volume I contains, together with the Auditor General's reports thereon, the consolidated financial statements of the Province of Alberta, the financial statements of the General Revenue Fund, and the financial statements of revolving funds, regulated funds, Provincial agencies and trust funds administered by the Government.

Volume II contains details of expenditures and revenues by department and other statements and reports included in the public accounts to comply with the Financial Administration Act and other statutes. In addition, a third volume containing details of expenditures by payee is published as supplementary information.

3.3.2 The Auditor General's report on the Province's 1986-87 consolidated financial statements was as follows:

AUDITOR'S REPORT

To the Members of the
Legislative Assembly

I have examined the consolidated statement of reported assets, liabilities and net assets of the Province of Alberta as at March 31, 1987 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Province of Alberta as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting, considered appropriate in the circumstances, as described in Note 1 to the consolidated financial statements applied on a basis consistent with that of the preceding year.

Donald D. Salmon

C.A.
Auditor General

Edmonton, Alberta
November 6, 1987

3.3.3 The above report covers the consolidated financial statements of the Province. A similar auditor's report was issued (see Volume I of the public accounts) on the financial statements of the General Revenue Fund and the detailed information of departmental expenditures and revenues contained in the first twenty-six sections of Volume II.

The volume of supplementary information containing details of expenditure by payee is not covered by the reports mentioned in the previous paragraph since it is not an integral part of public accounts. However, the system that processes the information contained in this volume is reviewed periodically by the Audit Office.

The above Auditor's Report, together with the overall assessment in section 1.1.2 of this report, is the culmination of most of the work done each year by the Audit Office. In effect, however, the report covers more than just the consolidated financial statements and the consolidation process. It also covers the 1986-87 audits of the various consolidated entities. These include the General Revenue Fund, the Alberta Heritage Savings Trust Fund and approximately eighty-five Provincial agencies and other funds (see the Index).

These audits, together with the annual audits of the universities, colleges, technical institutes, hospitals, irrigation districts and trust funds are performed as explained in section 4.3 of this report, which describes audit approaches.

3.4 CONSOLIDATED OPERATING STATISTICS

3.4.1 The consolidated financial statements of the Province are an aggregation of most, though not all, of the entities administered and owned by the Province of Alberta. They combine the operating results and financial positions of the Province's General Revenue Fund, the Alberta Heritage Savings Trust Fund and the entities whose financial statements are published in sections 3 to 7 of Volume I of the public accounts.

The consolidation, however, does not include the Provincially owned universities, colleges, technical institutes, hospitals and related funds. The reasons for their exclusion and the Auditor General's comments thereon are explained in section 2.2.1 of this report.

Consolidation Methods

3.4.2 The Province of Alberta first published consolidated financial statements for 1978-79. Since then, the Government has continued to refine the consolidation methods used. In my view, the 1986-87 consolidated financial statements are the best available basis for reviewing the overall financial position of the Province and its operating results. I believe, however, that the statements would be improved if the recommendations in section 2.2.1 of this report were adopted.

3.4.3 The consolidated financial statements show that for the 1986-87 fiscal year, the Province recorded a consolidated net expenditure, i.e. an annual deficit of $4,030 million (1985-86 - $41 million). They also show that at March 31, 1987, the consolidated net assets of the Province, i.e. the accumulated surplus, was $8.6 billion (March 31, 1986 - $12.6 billion).

It is important that these figures be viewed in the context of the accounting policies and consolidation methods used in preparing the consolidated financial statements. Although these policies and methods are employed and accepted by some government jurisdictions and are explained in a note to the consolidated financial statements, they are not in several respects, the generally accepted accounting principles that apply to profit-oriented organizations.

For example, as indicated above, the consolidation does not include the financial statements of the Provincially owned universities, colleges, technical institutes and hospitals. If the recorded net assets (excluding fixed assets) of these entities were included in the consolidation, the Province's accumulated surplus at March 31, 1987 would be increased by approximately $185 million.

In addition, most of the Province's fixed assets are excluded from the consolidation. This means that the accumulated surplus at March 31, 1987 does not include the value of land, buildings, equipment, fixtures and furniture owned by the Province, or the millions of hectares of Crown lands and the resource rights that attach thereto. Similarly, the accumulated surplus does not include the value of most inventories of consumable supplies and materials at March 31, 1987. The effect of these accounting policies is that the costs of fixed assets and consumable inventories are treated as expenditures in the fiscal years in which they are acquired, rather than in the years in which they are consumed or the benefits from their acquisition are realized.

An exception to the accounting policy of excluding fixed assets and consumable inventories from the consolidation is the treatment of those entities designated "commercial enterprises" by the Provincial Treasurer. Although the assets and liabilities of commercial enterprises are not aggregated on a line-by-line basis in the consolidated financial statements, they are recorded therein on an equity accounting basis. This has the effect of including the value of their inventories and the depreciated value of their fixed assets in the computation of the accumulated surplus of the Province. Entities designated commercial enterprises are:

Alberta Intermodal Services Ltd.
Alberta Liquor Control Board
Alberta Terminals Ltd.
The Alberta General Insurance Company
The Alberta Government Telephones Commission
The Workers' Compensation Board
Treasury Branches Deposits Fund

The Treasury Department's rationale for including the assets of these entities is that the assets will be used in future fiscal periods to earn revenue. The remainder of the Province's fixed assets are not included in the consolidated net assets. It is impossible for the Audit Office to estimate, with any degree of accuracy, the value of the excluded fixed assets and consumable inventories.

Regardless of the valuation method used, it is obvious that including all of the Province's fixed assets and consumable inventories in the consolidated statements would increase significantly the Province's accumulated surplus at March 31, 1987.

Another accounting policy that has a significant impact on the accumulated surplus is the method used to account for the Province's pension plan liabilities. As explained in section 2.2.1 of this report, the unrecorded portion of the Province's pension plan liabilities is disclosed in a footnote to the consolidated financial statements. Hence, it is not included in the computation of the accumulated surplus. Depending on the assumptions made in calculating the liability, including the full liability for pension plan obligations would reduce the Province's accumulated surplus at March 31, 1987 by approximately $6.6 billion.

3.4.4 The Province's consolidated operating results for the three years ended March 31, 1987 were as follows:

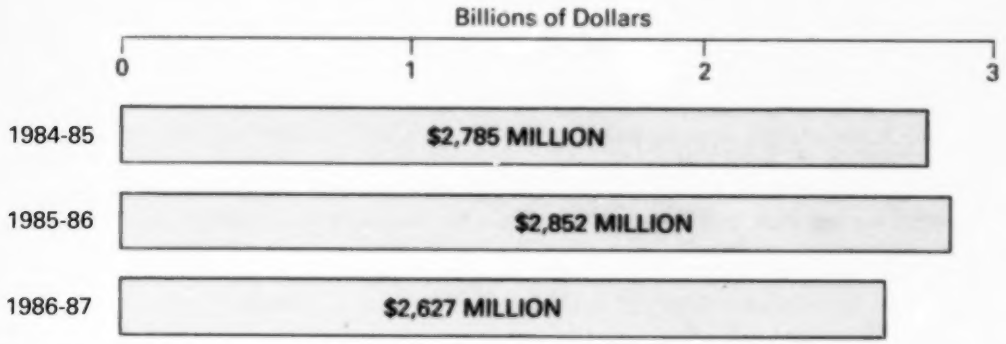
	1984-85	1985-86	1986-87
		(Millions of Dollars)	
Revenue	$12,786	$12,757	$ 9,063
Expenditure	11,540	12,798	13,093
Annual surplus (deficit)	1,246	(41)	(4,030)
Accumulated surplus at beginning of year	11,388	12,634	12,593
Accumulated surplus at end of year	$12,634	$12,593	$ 8,563

3.4.5 Consolidated revenue comprises:

	1984-85	1985-86	1986-87
		(Millions of Dollars)	
Taxes	$ 2,785	$ 2,852	$2,627
Non-renewable resource revenue	5,229	4,932	1,892
Payments from Government of Canada	1,647	1,742	1,642
Fees, permits and licenses	513	587	520
Trading profits	369	276	203
Investment income	2,042	2,160	1,965
Other	201	208	214
	$12,786	$12,757	$9,063

3.4.6 The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated revenue during the three years ended March 31, 1987:

Taxes



Tax revenue increased by $67 million or 2.4% in 1985-86 compared to the previous fiscal year, and decreased by $225 million or 7.9% in 1986-87 compared to 1985-86.

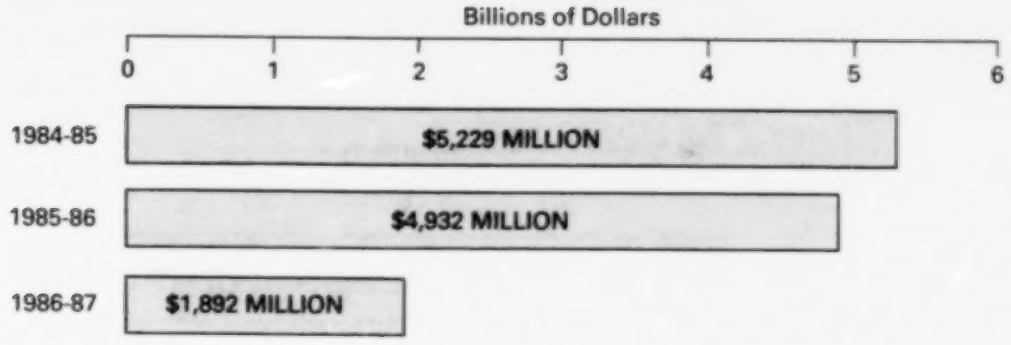
The main reasons for the 1986-87 decrease were:

- a reduction of $390 million in corporate tax revenue on account of the decreased profitability of the Province's largest corporations. These account for 60% of corporate tax revenue. Most of the decrease was in the oil and gas producing industry.

- a reduction of $92 million in freehold mineral tax due to a decrease in production from freehold mineral rights and the decrease in prices for crude oil and gas by-products during the year.

The above decreases were offset by an increase of $247 million in personal income tax revenue resulting from increased estimates (by the Government of Canada) of the basic federal tax of individuals resident in Alberta for the 1986 taxation year.

Non-Renewable Resource Revenue



Non-renewable resource revenue decreased by $297 million or 5.7% in 1985-86 compared to the previous fiscal year, and decreased by $3,040 million or 61.6% in 1986-87 compared to 1985-86.

The main reasons for the 1986-87 decrease were:

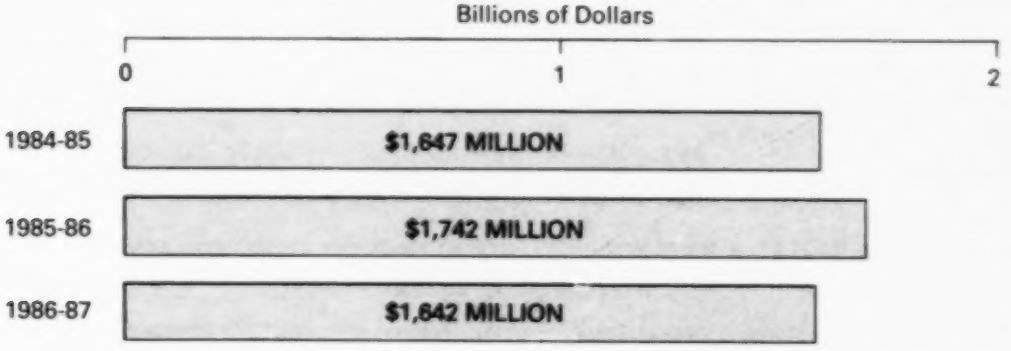
- crude oil royalty decreased by $1,537 million (61%). Despite the reduction in the marginal royalty rate during the year, the Crown's share of production was only 1% less than the previous year. With the decline in price of oil in the world market, the value of the Crown's share when sold was considerably reduced.

- natural gas and by-products royalty decreased by $709 million (39%). As the royalty paid on gas is dependent on selling price, the depressed gas prices contributed to this decline. Other factors are the reductions in marginal royalty rate and production.

- bonuses and sales of Crown leases decreased by $432 million (60%). Total hectares sold declined by 36% over the previous year and the average price paid per hectare for both Licenses and Leases declined by 66%.

- synthetic crude royalty decreased by $209 million (94%) over the previous year as a result of unforeseen costs incurred by Syncrude and a change to Suncor's royalty rate in response to the decline in oil prices.

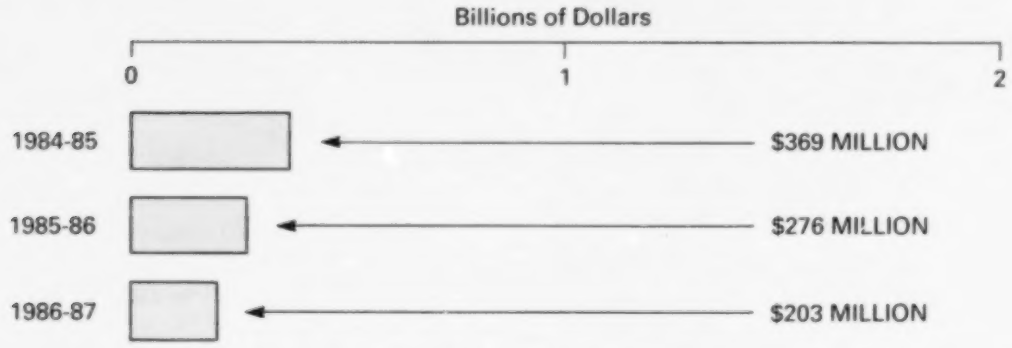
Payments from the Government of Canada



Payments from the Government of Canada increased by $95 million or 5.8% in 1985-86 compared to the previous fiscal year, and decreased by $100 million or 5.7% in 1986-87 compared to 1985-86.

The main reason for the 1986-87 decrease was a $105 million decrease in funding for crop insurance due to the decrease in indemnities expenditure of Alberta Hail and Crop Insurance Corporation in 1986-87.

Trading Profits



Trading profits decreased by $93 million or 25.2% in 1985-86 compared to the previous year, and decreased by $73 million or 26.4% in 1986-87 compared to 1985-86.

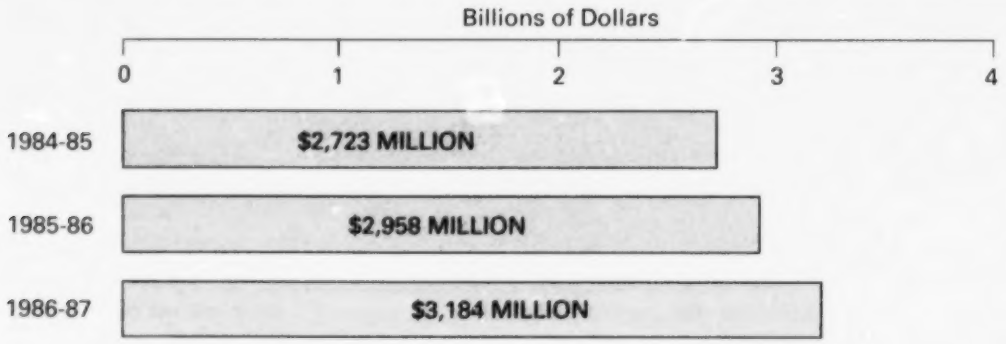
The main reason for the 1986-87 change was an increase of $145 million in the deficit of The Workers' Compensation Board. This increase was offset by the annual deficit of the Treasury Branches Deposits Fund being $67 million less than in 1985-86, due mainly to a $53 million reduction in net loss experience on loans.

3.4.7 Consolidated expenditure comprises:

	1984-85	1985-86	1986-87
		(Millions of Dollars)	
Health	$ 2,723	$ 2,958	$ 3,184
Education	2,385	2,544	2,670
Social services	1,028	1,156	1,277
Regional planning and development	700	727	800
Housing	147	100	138
Recreation and culture	227	241	230
Environment	147	169	193
Resource conservation and economic development	1,455	1,983	1,683
Transportation and utilities	1,348	1,496	1,398
Protection of persons and property	388	408	446
General government	661	658	844
Valuation adjustments	331	358	230
	$11,540	$12,798	$13,093

3.4.8 The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated expenditure during the three years ended March 31, 1987:

Health



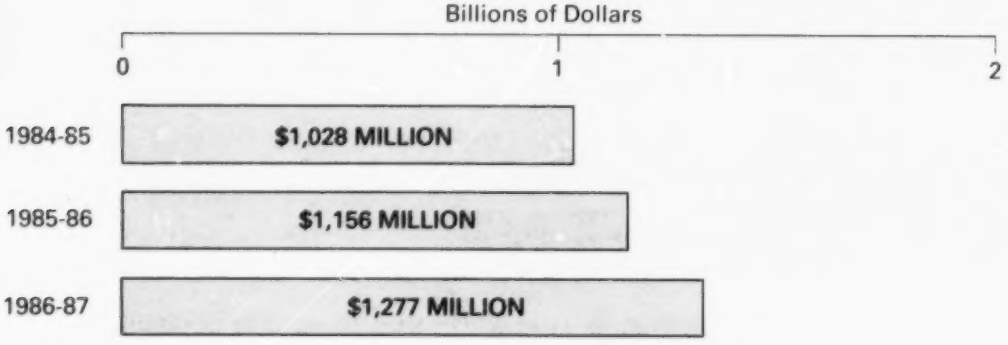
Health expenditure increased by $235 million or 8.6% in 1985-86 compared to the previous year, and increased by $226 million or 7.6% in 1986-87 compared to 1985-86.

The main reasons for the 1986-87 increase were:

- the operating element of Financial Assistance for Active Care increased by $127 million (9.6%). The recent completion of new hospital facilities has resulted in increased operating costs. The increase in financial assistance is also due to inflationary increases for existing programs and operations of hospitals.

- the expenditures of the Health Care Insurance Fund increased by $82 million (10.9%). Increased utilization of health care facilities as well as increases in fees for medical services provided were the major causes of the increase.

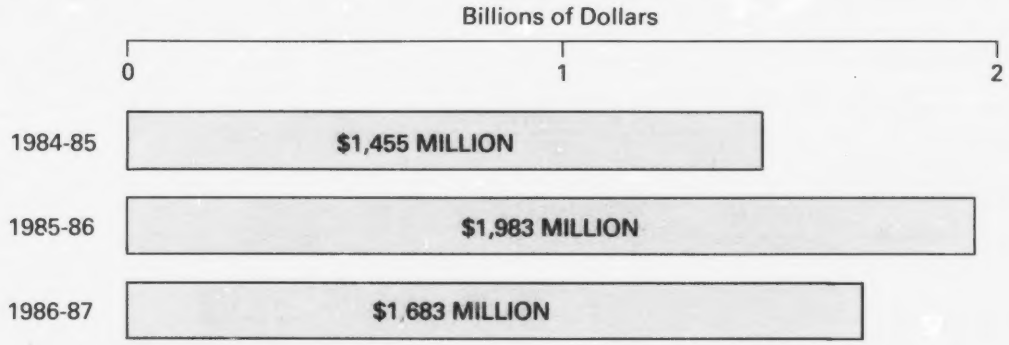
Social Services



Social services expenditure increased by $128 million or 12.5% in 1985-86 compared to the previous year, and increased by $121 million or 10.5% in 1986-87 compared to 1985-86.

The main reason for the 1986-87 increase was the greater number of social allowance recipients, particularly in the group considered by the Department of Social Services to be employable. Increased costs per client for medical benefits and shelter allowances also contributed to the increase.

Resource Conservation and Economic Development



Resource conservation and economic development increased by $528 million or 36.3% in 1985-86 compared to the previous year, and decreased by $300 million or 15.1% in 1986-87 compared to 1985-86.

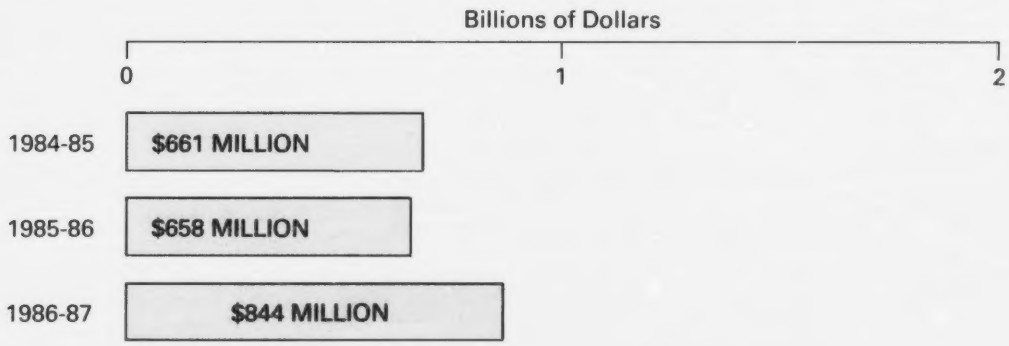
The main reasons for the 1986-87 decrease were:

- incentive payments and expenses under the Alberta Petroleum Incentives Program Act decreased by $259 million (52%) because the program is being phased out.

- the crop indemnities expenditure of Alberta Hail and Crop Insurance Corporation decreased by $140 million.

The above decreases were offset by a net increase of $97 million in the expenditures of the Natural Gas Pricing Agreement Act and Market Development Funds and the Take-or-pay Costs Sharing Fund.

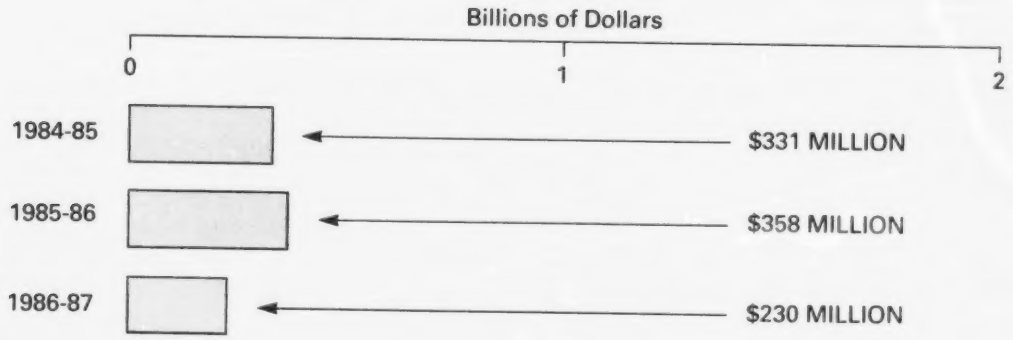
General Government



General Government expenditure decreased by $3 million or 0.5% in 1985-86 compared to the previous year, and increased by $186 million or 28.3% in 1986-87 compared to 1985-86.

The main reason for the 1986-87 increase was an increase of $125 million in the General Revenue Fund's debt servicing costs.

Valuation Adjustments



Valuation adjustments increased by $27 million or 8.2% in 1985-86 compared to the previous year and decreased by $128 million or 35.8% in 1986-87 compared to 1985-86.

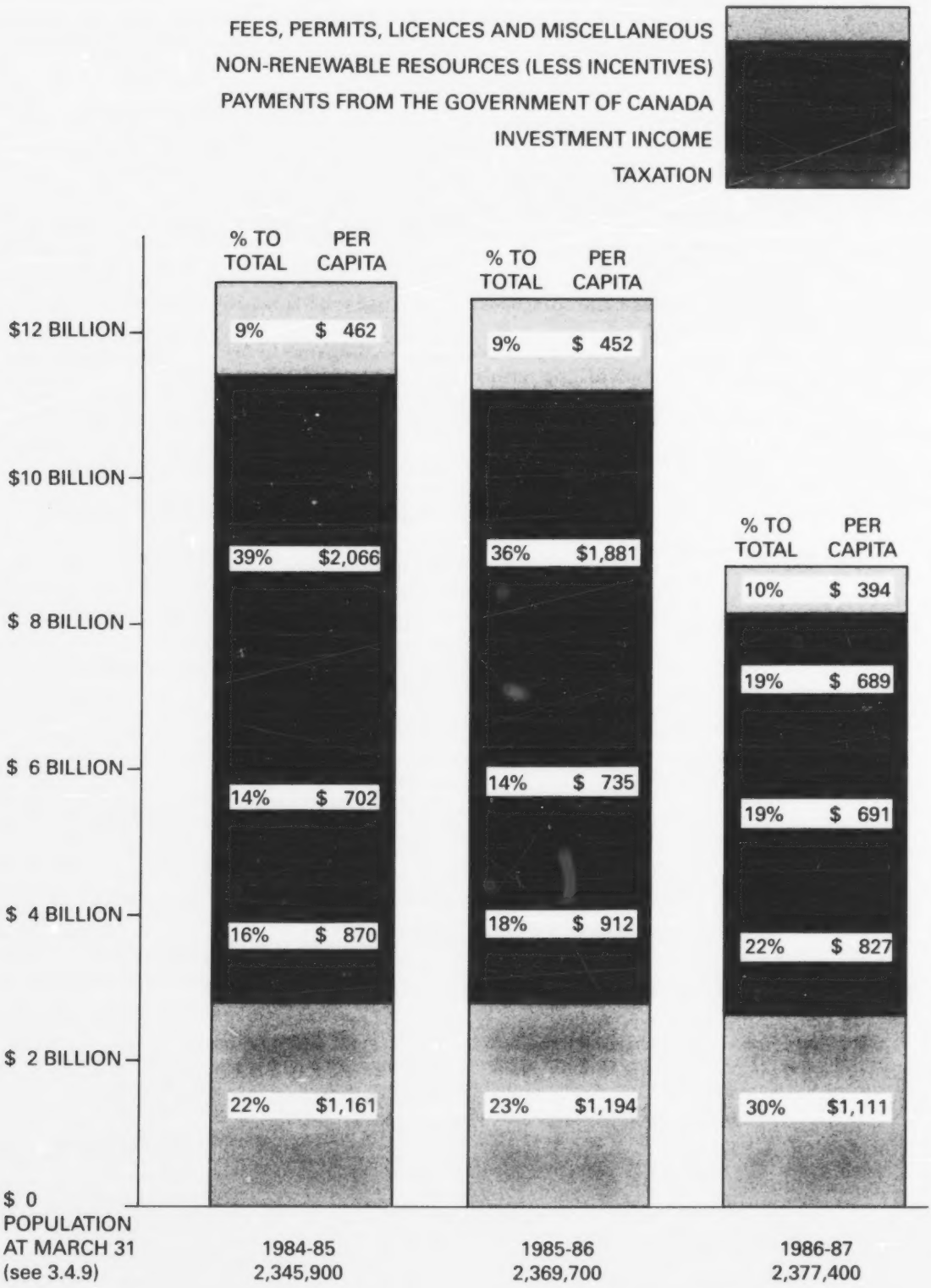
The main reason for the 1986-87 decrease as compared to 1985-86, was a reduction of $193 million in the write-off of long-term investments in the General Revenue Fund which was offset by an increase of $58 million in losses on mortgages and foreclosed properties in the Alberta Mortgage and Housing Corporation.

3.4.9 The financial information in the public accounts is displayed in a way that satisfies the prevailing legislation and is in accordance with acceptable government reporting practices. The following charts display some of the same financial information in an alternative and simplified manner, and are included in this report pursuant to subsection 19(3)(b) of the Auditor General Act.

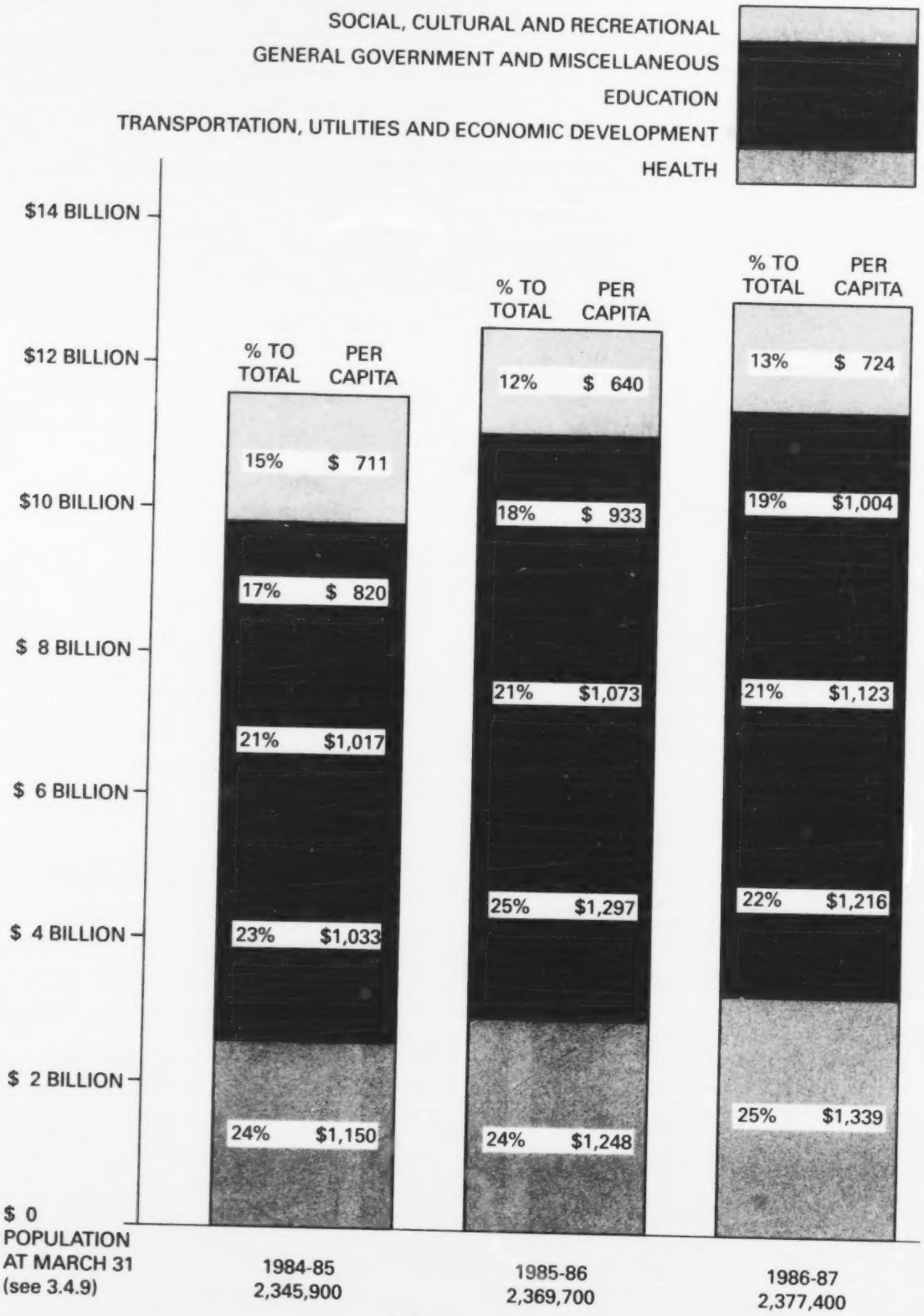
In preparing the charts, some revenues and expenditures have been grouped on a generic basis rather than the basis used in the public accounts. For example, in the charts freehold mineral tax is included in non-renewable resource revenue, whereas in the public accounts it is included in tax revenue. Non-renewable resource revenue (net) in the charts is the revenue after deducting from gross non-renewable resource revenue, costs under the various incentive programs that can be said to relate to the generation of that revenue, viz. royalty tax credits and rebates, petroleum incentive program grants, and geophysical and exploratory drilling incentives. In the public accounts, royalty tax rebates are reflected as deductions from tax revenue, while some costs under the other incentive programs are reflected as resource conservation and economic development expenditures.

Population figures in the charts are per the Alberta Bureau of Statistics. The figures at March 31, 1985 and 1986, are preliminary final intercensal estimates. The figure at March 31, 1987 is the most recent estimate.

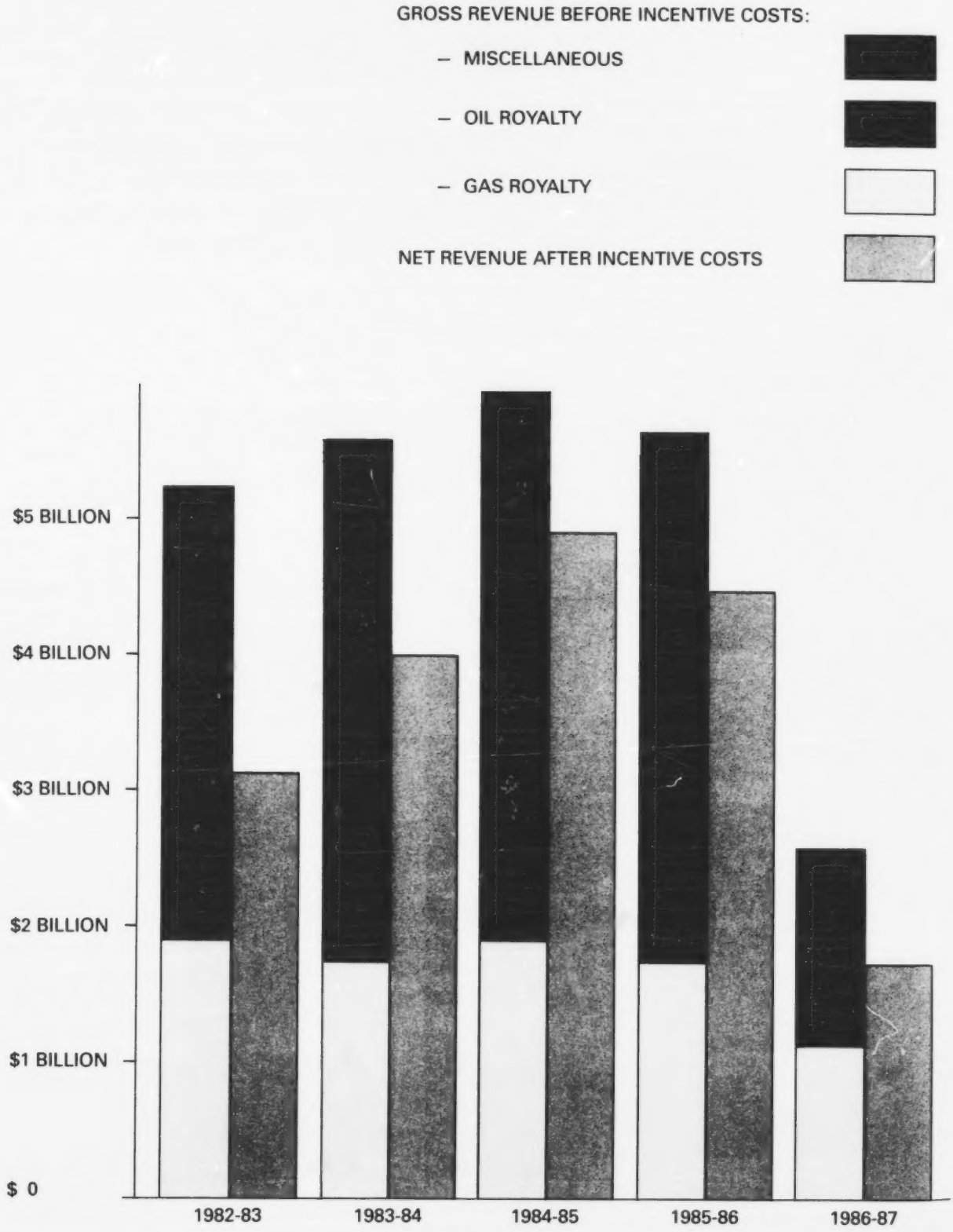
3.4.10 The following chart shows consolidated revenue by major groups, the percentage of such revenue to total consolidated revenue, and revenue per capita, for the past three years. (Prior years' figures have been reclassified where necessary to conform to 1986-87 presentation).



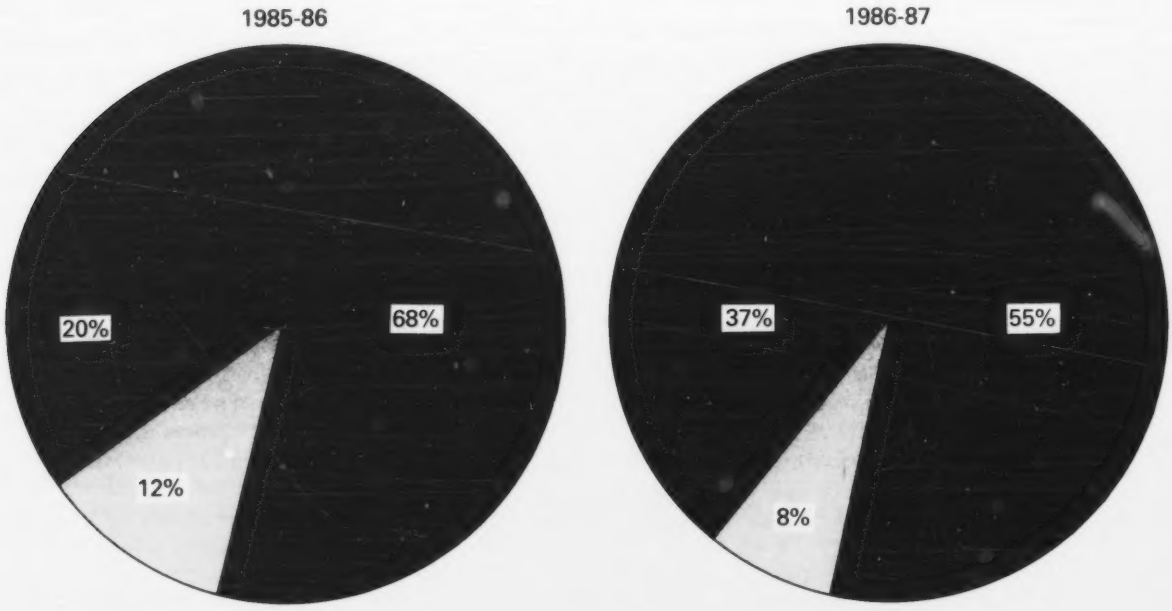
3.4.11 The following chart shows consolidated expenditure by major groups, the percentage of such expenditure to total consolidated expenditure, and expenditure per capita, for the past three years. (Prior years' figures have been reclassified where necessary to conform to 1986-87 presentation).



3.4.12 The following chart shows non-renewable resource revenue for 1982-83 to 1986-87 before allocations to the Alberta Heritage Savings Trust Fund.



3.4.13 The following chart compares the disposition of non-renewable resource revenue between 1985-86 and 1986-87.



To the Alberta Heritage Savings Trust Fund.

To the General Revenue Fund.

Returned to industry by way of royalty tax credits, petroleum incentive program grants, and geophysical and exploratory drilling incentive grants.

NOTE: The disposition of non-renewable resource revenue to the Alberta Heritage Savings Trust Fund is less than the percentages stated in legislation for the following reasons:

- the annual transfer from the General Revenue Fund is calculated on non-renewable resource revenues net of certain program costs and royalty tax credits.
- freehold mineral tax revenue is not included in the calculation.

3.5 COMMENTARY ON THE PUBLIC ACCOUNTS

3.5.1 This section of the report provides a commentary on some of the questions that I have been asked, in the Public Accounts Committee and elsewhere, relating to the public accounts.

3.5.2 Relationships between certain Provincial entities – The following information is provided to assist readers in understanding the relationships between certain entities included in the public accounts. Understanding the substance of some entities is difficult because financial structures are becoming more complex and there have been changes in the way certain activities are handled.

General Revenue Fund (GRF)

The GRF is the Province's main repository of public money. It is the fund that receives all revenues, pays all expenditures, and holds all assets and liabilities that are not assigned by legislation to other Provincial entities. Specifically or by implication, it guarantees the debt of all Provincial government entities. Accordingly, when the liabilities of a Provincial entity exceed its assets, the resulting deficit will normally be funded by the GRF. In other words, the GRF is the Province's 'fund of last resort.'

Most of the figures in the GRF's financial statements are the revenues, expenditures, assets and liabilities of the Province's government departments and legislative Offices. The financial activities of Provincial agencies and regulated funds are not reported therein, except for annual changes in their indebtedness with the GRF and contributions from the GRF to cover expenses or operating deficits. The financial statements of the GRF reflect the deficits that legislation requires them to reflect together with parts of other deficits. In other words, because legislation does not require that the GRF reflect budgetary appropriations to cover all deficits as incurred, deficits can accumulate in Provincial agencies, regulated funds and commercial enterprises.

Alberta Mortgage and Housing Corporation

Some of the programs administered by the Corporation are not intended to be self-sustaining. Over the years, contributions from the GRF have been needed to fund operating deficits.

Until 1985, the Corporation's annual operating deficits were covered by contributions from the GRF. Since then, an amendment to the Alberta Mortgage and Housing Corporation Act has allowed amounts represented by provisions for declines in asset values to be excluded from these contributions. As a result of this, $494.3 million of the Corporation's deficit at March 1987 has not been funded by contributions from the GRF.

The property investments of the Corporation are funded primarily by debentures issued to the Alberta Heritage Savings Trust Fund. Thus, the majority of the Corporation's interest expenditure is investment income in the Heritage Fund.

Alberta Agricultural Development Corporation (AADC)
Alberta Opportunity Company (AOC)

Both these corporations receive direct program support by way of contribution from the GRF and receive financing from the Alberta Heritage Savings Trust Fund.

At March 31, 1987, deficits not reflected in the GRF were $66.9 million for AADC and $20.9 million for AOC.

Alberta Capital Fund (ACF)

Certain capital project activities previously financed directly by the GRF are now channelled through the ACF. The ACF operates under the authority of the Financial Administration Act and finances capital construction projects with borrowed money.

The ACF debt servicing costs are funded by contributions from the GRF as they occur. However, the ACF's requirements for debt retirement are funded by contributions from the GRF over a period of years based on amortization of the capital cost of the projects financed by the ACF. This is why the ACF deficit at March 1987 of $256.4 million had not been funded by contributions from the GRF. The effect of using the ACF is to charge the GRF with the costs of capital assets over their useful lives, rather than charging it with the costs in the years that the assets are acquired.

Farm Credit Stability Fund
Small Business Term Assistance Fund

These Funds were established in 1986-87 to provide financial assistance to Alberta farmers and small businesses.

Contributions from the GRF funded the deficits of these Funds at March 31, 1987. The deficits consist of the sum of payments made to the lending institutions for their administrative costs plus or minus, as appropriate, any difference between interest paid on borrowed funds and that earned on loans to farmers and small businesses.

Treasury Branches Deposits Fund

Treasury Branches is a division of the Province's Treasury Department. It is intended that it should operate as a financially self-sustaining entity that does not need subsidies from the GRF. For this reason, it is classified as a commercial enterprise in the Province's public accounts.

During the recent economic downturn, as a result of loan losses, Treasury Branches experienced operating deficits. At March 1987, the accumulated deficit was $118.1 million. The Treasury Branches Act allows Treasury Branches to pay monies out of its operating surpluses into the GRF, and in past years it has done so. The Act, however, does not specifically require the GRF to make contributions to cover operating deficits. No part of the Treasury Branches' March 1987 accumulated deficit is reflected in the 1986-87 financial statements of the GRF.

3.5.3 Value of the Heritage Fund's investment in the Alberta Mortgage and Housing Corporation – It has been suggested that the Heritage Fund's investment in the Corporation, which at March 1987 stood at $3,396 million, may be overvalued. This suggestion is based on the premise that the value of the Corporation's real estate investments has declined in recent years to the extent that it is no longer able to repay its debentures with the Heritage Fund.

In my view, the Heritage Fund's investment in the Corporation is correctly valued. It must be remembered that, to the extent that declines in the Corporation's asset values are realized, they are funded by the GRF. As explained in section 3.5.2 above, only unrealized declines in value are not funded by the GRF. At March 1987, unrealized declines which had not been funded by the GRF amounted to $494 million.

It might be argued that the Corporation's debentures on the Heritage Fund's balance sheet should be written down by the amount of the Corporation's unfunded deficit, ie. $494 million. This argument, however, ignores the fact that legislation requires the GRF to fund any portion of the Corporation's deficit that represents realized losses. Hence, the Corporation will always have the capacity to repay its Heritage Fund debentures because any losses incurred on realization of its assets will be made good by the GRF.

3.5.4 GRF budgetary revenue and expenditure – Since 1982, all of the Alberta Heritage Savings Trust Fund's net investment income has been transferred to the GRF. The Heritage Fund's activities include investing in debentures issued by Provincial Corporations.

Some non self-sustaining entities (e.g. Alberta Mortgage and Housing Corporation) pay interest to the Heritage Fund, which is then transferred to GRF budgetary revenue. Further, GRF budgetary expenditure includes payments to non self-sustaining entities (e.g. Alberta Mortgage and Housing Corporation) to cover part or all of the deficits of such entities. Therefore, the GRF budgetary revenues and expenditures each include connected intra-government transactions.

It should be noted that intra-government transactions are eliminated from the consolidated financial statements of the Province. Section 3.4.2 of this report points out that the consolidated financial statements are the best available basis for reviewing the overall financial position of the Province and its operating results.

Also, as explained in section 3.5.2 above, GRF budgetary expenditure does not include all deficits incurred by Provincial agencies, regulated funds and commercial enterprises. This in part explains the difference between the budgetary deficit of the GRF and the net expenditure in the Consolidated Statement of Revenue and Expenditure.

SECTION 4 - THE AUDIT OFFICE

Reported pursuant to section 19(1)(a) of the Auditor General Act

4.1 ROLE OF THE AUDITOR GENERAL

4.2 REPORTING RESPONSIBILITIES

4.3 AUDIT APPROACHES

4.4 ORGANIZATION OF THE AUDIT OFFICE

4.1 ROLE OF THE AUDITOR GENERAL

4.1.1 The Audit Office operates under the Auditor General Act to add credibility to the financial reporting of the Government of Alberta and to comment on the Province's financial administration. The Act deals with the role of the Auditor General in terms of reporting responsibilities. Only by inference, however, does it deal with what those reports should attempt to achieve and how the role of the Auditor General should impact the financial administration of the Province's affairs.

Adding Credibility

4.1.2 A major role of all auditors is to provide assurance that financial information is reliable. In the private sector, for example, auditors provide assurance to shareholders of corporations that the financial statements issued by management are fairly presented. Similarly, legislative auditors provide assurance to their legislative bodies that financial and other accountability information issued by governments is fairly presented.

To appreciate the significance of a legislative auditor's role, it is necessary to understand the importance of accountability. In simple terms, accountability is the process by which governments are "held accountable" for complying with and not exceeding the authorities provided by their legislative bodies. These authorities may be primary authorities such as statutes, or subordinate authorities issued pursuant to primary authorities such as Orders in Council, regulations, ministerial orders, policy directives, corporation by-laws, contracts, agreements and administrative manuals. By providing authorities and requiring compliance with them, legislative bodies control the administration of their jurisdictions. Periodically, the individuals and entities that receive these authorities must report back on how the authorities were exercised. Naturally, the form of these reports will depend on the nature of the authorities provided.

As well as showing legislative bodies how the authorities they have issued were exercised, accountability reports frequently provide a basis for future policy decisions. Hence, it is important that the information reported be accurate and fairly stated. The work of independent legislative auditors, therefore, adds credibility to accountability reports and provides assurance to legislators that their decisions are based on reliable information.

My role, in this regard, can be illustrated by describing the accountability process as it relates to the Province's annual expenditure Appropriation Acts. Each year, the Government of Alberta presents its expenditure budgets (estimates) for debate in the Legislative Assembly. Once the estimates are formally approved by the Legislature, the Government and its administrators are responsible for their implementation. In this way, the Assembly delegates authority to the Government to disburse funds for the approved purposes, to manage resources in an economic and efficient manner, and to evaluate the effectiveness of the programs involved.

This authority carries a responsibility to report back to the Legislative Assembly on how the funds and resources were administered.

The principle accountability information of a financial nature tabled in the Legislative Assembly is the annual public accounts of the Province. These are prepared by the Treasury Department and tabled by the Provincial Treasurer. Each set of financial statements contained therein includes an auditor's report as to whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the entity concerned, in accordance with an appropriate disclosed basis of accounting and whether that basis has been consistently applied. Because of my independent status and position as an officer of the Legislature, such reports add credibility to the accountability information contained in the public accounts.

Accountability information is also subject to scrutiny by the Select Standing Committee on Public Accounts. This all-party committee acts on behalf of the Members of the Assembly in conducting an in-depth examination of the Government's management and control of public resources. Here again, the work of the Audit Office affects the accountability process. This annual report may be used as a guide by the Select Standing Committee in its review of the public accounts and the activities of individual departments, Provincial agencies and regulated and revolving funds.

Financial Administration

4.1.3 Adding credibility to accountability information, however, is only one of the functions of a legislative auditor. The Audit Office also reports to senior management on systems designed to strengthen internal control, to detect irregularities, to promote economy and efficiency and to control and administer resources. By commenting to senior management on identified system weaknesses and deficiencies and by making suggestions for changes to existing systems and practices, the Audit Office contributes to improving the financial administration of departments, funds and Provincial agencies. Through my annual reports, I provide assurance to the Legislative Assembly on the financial administration of the Province. In addition, there is little doubt that the knowledge that their work will be audited every year has a salutary effect on staff who might otherwise be tempted to misuse public monies.

Auditing Standards and Accounting Principles

4.1.4 Although the Auditor General Act prescribes the Auditor General's reporting responsibilities, it is silent as to the auditing standards that are appropriate to discharge those responsibilities. I believe, however, that the work of the Audit Office should adhere, as a minimum, to the auditing standards published by the Canadian Institute of Chartered Accountants (CICA).

The standards that apply to auditors of public sector entities are to be found in Statements issued by the Public Sector Accounting and Auditing Committee (PSAAC). The Auditing Recommendations of the Committee are intended to apply to all entities in the public sector. In the absence of such recommendations, auditors of public sector entities have regard to the Auditing Recommendations in the Members' Handbook of the Canadian Institute of Chartered Accountants. In effect, PSAAC Auditing Recommendations supplement the CICA Handbook Auditing Recommendations to the extent necessary to recognize special circumstances in public sector auditing.

Accounting policies are the specific accounting principles used by a reporting entity and the methods for applying those principles. Appropriate accounting policies are those that result in fair disclosure of financial information. Profit-oriented entities in the public sector should adhere to the Accounting Recommendations in the CICA Handbook. Other entities in the public sector may base their accounting policies either on the PSAAC Accounting Recommendations or the CICA Handbook Accounting Recommendations, selecting the basis that is the more appropriate to their individual objectives and circumstances. The basis chosen should be disclosed and consistently applied.

To date, PSAAC has issued three Accounting Statements:

1. Disclosure of Accounting Policies
2. Objectives of Government Financial Statements
3. General Standards of Financial Statement Presentation for Governments

Statements 2 and 3 identify and describe objectives and standards for summary (ie. consolidated) financial statements.

4.1.5 The financial statements of Alberta's Provincial entities are prepared in accordance with generally accepted accounting principles as set out in the CICA Handbook or alternatively, in accordance with an appropriate disclosed basis of accounting.

Because the departures from generally accepted accounting principles are so numerous and significant with respect to the Province of Alberta Consolidated Financial Statements and the General Revenue Fund, the Provincial Treasurer has considered it appropriate to omit reference to generally accepted accounting principles. The notes to these financial statements headed 'Significant Accounting Policies and Reporting Practices' explain the basis of accounting used.

4.2 REPORTING RESPONSIBILITIES

4.2.1 The Auditor General reports to the Legislative Assembly under sections 18, 19 and 20 of the Auditor General Act, and to management under section 28 of the Act. In addition, specially requested reports are issued from time to time under section 17 of the Auditor General Act.

Section 18 Reports

4.2.2 In a report issued under section 18 of the Act, I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and whether they are on a basis consistent with those of the preceding year. A report of this nature is similar to reports issued by auditors on financial statements of private sector organizations audited in accordance with generally accepted auditing standards.

The section 18 report on the consolidated financial statements for the 1986-87 fiscal year was dated November 6, 1987 and is reproduced in section 3.3.2 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are annexed to the related financial statements, most of which are contained in the public accounts of the Province.

Section 19 Reports

4.2.3 In a report issued under section 19 of the Act (this report), I report to the Legislative Assembly on the work of the Audit Office, and various other matters specified in section 19 of the Act, that were observed during the course of that work. There is virtually no limitation to what may be included in a section 19 report, since the Act empowers the Auditor General to call attention to any matter that he considers should be brought to the attention of the Legislative Assembly.

Section 20 Reports

4.2.4 In a report issued under section 20 of the Act, I may report to the Legislative Assembly on any matter of importance or urgency that, in my opinion, should not be deferred until presentation of my annual report issued under section 19 of the Act.

No reports were issued under section 20 of the Act in respect of the fiscal year ended March 31, 1987.

Section 28 Reports

4.2.5 Reports issued under section 28 of the Act are more commonly referred to as management letters. The purpose of management letters, as explained more fully in section 3.1.2 of this report, is to communicate to management system weaknesses and deficiencies together with other matters observed during audits.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. Copies of most management letters are sent to the minister responsible for the audited entity and to the Secretary to the Treasury Board (except for Provincial agencies referred to in section 2(5) of the Financial Administration Act). Management letters are not made available to the Legislative Assembly or its select standing committees, nor are they required to be by the Auditor General Act.

Section 17 Reports

4.2.6 Under section 17 of the Auditor General Act, the Legislative Assembly and the Executive Council may ask the Auditor General to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1986-87 fiscal year, I received no requests to perform special duties pursuant to section 17 of the Auditor General Act.

Audit Committee and the Select Standing Committee on Legislative Offices

4.2.7 Reports issued by me under sections 19 and 20 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Select Standing Committee on Legislative Offices. Before being tabled, however, they are reviewed by an Audit Committee established under section 21 of the Act. The members of this Committee, all of whom are appointed by Order in Council, are as follows:

Mr. Haughton G. Thomson, F.C.A.
Retired Partner
Deloitte Haskins & Sells, Chartered Accountants
Edmonton

Mr. Elvin A. Christenson, F.C.A.
Retired Partner
Thorne Ernst & Whinney, Chartered Accountants
Edmonton

His Honour Clare L. Liden
Assistant Chief Judge
Provincial Court of Alberta

Mr. Robert A. McLaughlin
Retired Systems Analyst
Edmonton

Mr. William G. Stephen, F.C.A.
Partner
Stephen Johnson, Chartered Accountants
Calgary

The Hon. Dick Johnston, F.C.A.
Provincial Treasurer of Alberta

I wish to acknowledge the helpful and constructive contributions of the Audit Committee during the review stage of the annual report for the 1986-87 fiscal year.

During 1986-87, members of the Select Standing Committee on Legislative Offices were as follows:

Mr. G. Stevens, P. Eng., M.L.A.	Chairman
Mr. S.B. Day, M.L.A.	Deputy Chairman
Dr. W.A. Buck, M.L.A.	
Mr. G. Clegg, M.L.A.	
Mr. J. Drobot, M.L.A.	
Dr. C.R. Elliott, M.L.A.	
Mr. D. Fox, M.L.A.	
Mr. G. Mitchell, M.L.A.	
Mr. F.A. Stewart, M.L.A.	

The present members of the Committee are:

Mr. F.A. Stewart, M.L.A.	Chairman
Mr. J.A. Gogo, M.L.A.	Deputy Chairman
Mr. J.W. Ady, M.L.A.	
Dr. W.A. Buck, M.L.A.	
Mr. G. Clegg, M.L.A.	
Mr. J. Drobot, M.L.A.	
Dr. C.R. Elliott, M.L.A.	
Mr. D. Fox, M.L.A.	
Mr. G. Mitchell, M.L.A.	

I acknowledge the rapport with this Committee that has enhanced the Audit Office's accountability to the Legislature.

4.3 AUDIT APPROACHES

4.3.1 The audit approaches developed by the Audit Office reflect the relative importance of my reporting responsibilities.

The most important of these responsibilities derive from sections 18, 19 and 28 of the Auditor General Act, and are:

(i) to report on the annual financial statements of all departments, funds and Provincial agencies in accordance with generally accepted auditing standards, and

(ii) to report to management and, where appropriate, to the Legislative Assembly:

- instances observed of non-compliance with legislative authorities,
- situations where it is observed that assets are inadequately accounted for or improperly safeguarded,
- instances where it is observed that control and information systems and practices, including systems relating to economy and efficiency, are absent, inadequate or not being complied with,
- situations where it is observed that accounting policies and reporting practices are inappropriate or inadequate, and
- other matters considered by the Auditor General to be appropriate to report.

4.3.2 Section 18 of the Act requires all financial statements to be audited every year. The work necessary to report on these statements in accordance with generally accepted auditing standards is considerable and consumes a large portion of the Audit Office's resources each year.

Sections 19 and 28 of the Act require the Auditor General to report systems deficiencies, legislative non-compliance or inadequately safeguarded public assets, if they are observed and if I consider them to be significant. These sections of the Act do not require the Audit Office to examine each year every area, circumstance or system that could reveal problems of this nature.

4.3.3 An audit in accordance with generally accepted auditing standards is designed primarily to attest to the fair presentation of financial statements. It is not designed to find the various irregularities reportable under sections 19 and 28, though in practice some may come to the auditor's attention as a by-product of the work performed. I believe, however, that a legislative expectation exists for the work of my Office to extend beyond seeking matters reportable under sections 19 and 28 only as a by-product of adhering to the minimum requirements of generally accepted auditing standards. For this reason, annual audits are generally approached with three main objectives. In addition to the work designed to attest to the fair presentation of financial statements (the financial audit) the following work is undertaken:

- At the beginning of each audit, significant financial and administrative authorities that impact the entity's operations are identified. During the audit, all transactions examined as part of the financial audit are also examined to determine whether or not they comply with the identified authorities. Any observed instances of non-compliance with prevailing authorities can be reported to management and, where appropriate, to the Legislative Assembly.

- Control and information systems and practices are examined on a selective basis. The Audit Office attempts to objectively maximize the usefulness of its work by identifying for examination those systems and practices essential to the successful operation of an entity. The main purpose of examining such systems is to help management improve the systems it has to ensure that the objectives of the enterprise are achieved. This, however, should not be interpreted as auditing Government decisions and policies; these are correctly beyond the scope of a legislative auditor's mandate.

The scope of the Audit Office's annual audit activity as described above exceeds the minimum requirements of generally accepted auditing standards for financial audits. The approach, however, enables me to report more extensively to management and, where appropriate, to the Legislative Assembly, as I believe is expected.

4.3.4 The Audit Office has developed several unique auditing methodologies and techniques to facilitate the conduct of audit work. This was necessary in view of the extended systems auditing strategies outlined above which often present unique auditing challenges particularly where, as is usually the case, the audit entity makes extensive use of computers and complex data processing systems to maintain records and monitor the delivery of services and programs. PROBE – the generalized file interrogation system developed by the Audit Office – continues to facilitate the auditor's examination and review of data files and systems.

4.3.5 Many of the techniques adopted by the Audit Office emphasize the prevention of errors and irregularities, rather than attempting to be purely detective. I believe that diagnosing and eliminating weaknesses in accounting and other information systems will minimize the potential for loss and waste of public monies and resources.

4.3.6 Before leaving the subject of audit approaches, and to avoid possible misunderstandings, it may be appropriate to elaborate on the application of generally accepted auditing standards to the detection of fraud and error.

In an examination made in accordance with generally accepted auditing standards, an auditor fulfills his professional responsibility by complying with those standards. When conducting an audit in accordance with generally accepted auditing standards, an auditor seeks reasonable assurance that fraud and error, which may be material to the financial statements or other accountability information, have not occurred or that, if they have occurred, they are corrected and appropriately reported. When planning his examination, the auditor is responsible, within the inherent limitations of the auditing process, for considering the risk of fraud and error and being alert for circumstances that might cause him to suspect their existence. If at any time his suspicions are aroused, the auditor must perform additional procedures to confirm or dispel those suspicions. Beyond that, the auditor has no separate or additional responsibility for detecting fraud and error.

It must be realized, therefore, that an audit performed in accordance with generally accepted auditing standards may not detect, and is not primarily designed to detect, every instance of fraud or error. The inherent limitations in the audit process are virtually unavoidable. An auditor would not have the resources to examine the circumstances behind and the support for every transaction recorded. Even if he had, he could not be sure that there were no unrecorded transactions. Furthermore, collusion between auditee personnel and outside parties, or among management or employees could result in apparently genuine but falsified transactions and documents being accepted by the auditor.

4.4 ORGANIZATION OF THE AUDIT OFFICE

4.4.1 The organization structure of the Audit Office is as follows:

* see section 4.2.7 of this report.

The Management Committee

4.4.2 The Audit Office is administered by the Management Committee. The Committee sets, and monitors the achievement of, the policies designed to discharge the Auditor General's legislatively prescribed responsibilities.

The Audit Divisions

4.4.3 Each of the two Audit Divisions is jointly administered by an Assistant Auditor General and an Executive Director; the Assistant Auditor General is responsible to the Management Committee for the Division. The Assistant Auditor General and Executive Director within an Audit Division each control a number of the audits assigned to their Division. The planning and execution of audits is the direct responsibility of the Audit Principals within each Division. Audit Principals fulfill their responsibilities with the assistance of the Audit Managers, EDP Audit Managers and Supervisors assigned to each Audit Division. Each Audit Division has its own

Staff Group comprising student auditors pursuing a professional accounting designation. The deployment of resources in two audit divisions is designed for economy and efficiency.

The Administration Division

4.4.4 The Administration Division is jointly administered by an Assistant Auditor General and an Executive Director; the Assistant Auditor General is responsible to the Management Committee for the Division. The Division provides a variety of administrative services to the Audit Office. The most important function of the Division is monitoring the implementation of policies and directives issued from time to time by the Management Committee.

The Division is responsible for the selection and hiring of staff, personnel, the time recording system, maintaining the Office library, and co-ordinating budgetary and accounting functions. It exercises quality control over all audit reports, financial statements, management letters and other output of the Audit Office. This includes monitoring for adherence with established policies and standards and maintaining the Audit Office Staff Manual.

The professional practices and professional development functions are also performed by the Administration Division. These include establishing practice standards and policies, administering the Office's internal practice review program, and developing and presenting courses on audit related subjects.

The Administration Division is also responsible for coordinating the production of the Auditor General's Annual Reports to the Legislative Assembly.

4.4.5 The Audit Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act. The contributions of agents in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1987 were as follows:

Arthur Andersen & Co.
Bailey Lundell
Bevan, Halbert & Ginet
Carpenter & Company
Clarkson Gordon
Collins Barrow
Coopers & Lybrand
Cuthbertson Stainthorpe Sandall
Deloitte Haskins & Sells
Fletcher, Mudryk & Co.
Hudson & Company
Johnston, Morrison, Hunter & Co.
Matthew Craig Watts Davies
Mills Macleod Unrau Gerlock
Pannell Kerr MacGillivray
Peat Marwick
Price Waterhouse
Sax, Zimmel, Stewart & Co.
Thorne Ernst & Whinney
Touche Ross & Co.
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

4.4.6 The audited financial statements of the Office of the Auditor General are reproduced in section 27 of volume II of the public accounts 1986-87 in accordance with section 30(4) of the Auditor General Act.

APPENDIX 1

INDEX OF AUDIT ENTITIES

A. Entities audited pursuant to section 12(a) of the Auditor General Act

B. Entities audited pursuant to section 12(b) of the Auditor General Act

C. Entities audited pursuant to section 43 of the Irrigation Act

D. Crown-controlled organizations audited other than by the Auditor General

A. **Entities audited pursuant to section 12(a) of the Auditor General Act**

	Page in Public Accounts	References to Observations in this report
LEGISLATIVE ASSEMBLY		
Legislative Assembly Office	2.3	2.3.1
Office of the Auditor General	2.3	2.3.2
Office of the Chief Electoral Officer	2.3	2.3.3
Office of the Ombudsman	2.3	2.3.4
ADVANCED EDUCATION:		
Department of Advanced Education	2.3	2.4.1
Regulated Funds (excluding trust funds):		
Students Loan Fund	4.77	2.4.3
Provincial Committees:		
Students Finance Board	6.3	2.4.2
Trust Funds:		
Advanced Education Endowment Fund	8.63	2.4.3
John Joseph Collett Memorial Scholarship Fund	8.63	2.4.3
Colleges:		
Alberta College of Art		2.4.14
Fairview College		2.4.15
Grande Prairie Regional College		2.4.16
Grant MacEwan Community College		2.4.17
Keyano College		2.4.18
Lakeland College		2.4.19
Lethbridge Community College		2.4.20
Medicine Hat College		2.4.21
Mount Royal College		2.4.22
Olds College		2.4.23
Red Deer College		2.4.24
Technical Institutes:		
Northern Alberta Institute of Technology		2.4.26
Southern Alberta Institute of Technology		3.2.5 2.4.27
Westerra Institute of Technology		2.4.28
Universities:		
Athabasca University		2.4.5
The University of Alberta		2.4.7
The University of Calgary		2.4.6
The University of Lethbridge		2.4.12
Other:		
Alberta Laser Institute		2.4.8
Alberta Telecommunications Research Centre		2.4.8
The Alberta Microelectronic Centre		2.4.8
The Arctic Institute of North America		2.4.12
The Banff Centre for Continuing Education		2.4.11
Centre for Frontier Engineering Research Institute		2.4.8
Chembiomed Ltd.		2.4.9
Hydrocarbon Research Centre		2.4.10
AGRICULTURE:		
Department of Agriculture	2.3	2.5.1
Regulated Funds (excluding trust funds):		
Crop Reinsurance Fund of Alberta	4.77	2.5.4

	Page in Public Accounts	References to Observations in this report
The Horned Cattle Purchases Act Trust Account	4.3	2.5.4
Livestock Patrons' Assurance Fund	4.77	2.5.4
Stray Animals Act Fund	4.77	2.5.4
Provincial Corporations:		
Alberta Agricultural Development Corporation	5.3	2.5.2
Alberta Agricultural Research Trust	5.10	2.5.4
Alberta Dairy Control Board	5.13	2.5.4
Alberta Hail and Crop Insurance Corporation	5.17	2.5.3
Irrigation Land Manager	5.26	2.5.4
Provincial Committees:		
Agricultural Research Council of Alberta	6.6	2.5.4
Commercial Enterprises:		
Alberta Terminals Ltd.	7.3	2.5.4
Trust Funds:		
Claude Gallinger Memorial Fund	8.63	2.5.4
National Tripartite Price Stabilization Program Trust Account	8.63	2.5.4
Pennington Memorial Scholarship Fund	8.63	2.5.4
Thomas Caryk Memorial Scholarship Fund	8.63	2.5.4
Wheat Board Money Trust Account	8.3	2.5.4
ATTORNEY GENERAL:		
Department of the Attorney General	2.3	2.6.1
Regulated Funds (excluding Trust Funds):		
Chattel Security Registries Assurance Fund	4.77	2.6.2
Registrar's Assurance Fund	4.77	2.6.2
Commercial Enterprises:		
The Alberta General Insurance Company	7.9	2.6.2
Trust Funds:		
Land Titles Offices Trust	8.63	2.6.2
Maintenance Enforcement Trust	8.63	2.6.2
Public Trustee	8.6	2.6.2
Various Courts and Sheriffs' Offices Trusts	8.63	2.6.2
CAREER DEVELOPMENT AND EMPLOYMENT:		
Department of Career Development and Employment	2.3	2.7.1
COMMUNITY AND OCCUPATIONAL HEALTH:		
Department of Community and Occupational Health	2.3	2.8.1
Provincial Corporations:		
Alberta Alcohol and Drug Abuse Commission	5.29	2.8.2
Commercial Enterprises:		
The Workers' Compensation Board	7.13	2.8.3
Trust Funds:		
Various Institutions Trust Accounts	8.63	2.8.4
CONSUMER AND CORPORATE AFFAIRS:		
Department of Consumer and Corporate Affairs	2.3	2.9.1
Trust Funds:		
Collection Practices Act Trust	8.63	2.9.1
Debtors Assistance Trust	8.63	2.9.1

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Insurance Companies Trust	8.63	2.9.1
Orderly Payment of Debts	8.63	2.9.1
Securities Act Trust	8.63	2.9.1
CULTURE AND MULTICULTURALISM:		
Department of Culture and Multiculturalism	2.3	2.10.1
Revolving Funds:		
Culture Revolving Fund	3.3	2.10.3
Provincial Corporations:		
The Alberta Art Foundation	5.33	2.10.3
The Alberta Cultural Heritage Foundation	5.37	2.10.3
The Alberta Foundation for the Literary Arts	5.40	2.10.3
The Alberta Foundation for the Performing Arts	5.43	2.10.3
The Alberta Historical Resources Foundation	5.49	2.10.3
Glenbow-Alberta Institute	5.53	3.2.2 2.10.2
The Government House Foundation	5.60	2.10.3
Trust Funds:		
Fort Dunvegan Historical Society Trust Fund	8.63	2.10.3
New Canadian Encyclopedia Publishing Ltd. Trust Fund	8.63	2.10.3
Other:		
Glenbow Foundation		2.10.2
Luxton Museum Ltd.		2.10.2
ECONOMIC DEVELOPMENT AND TRADE:		
Department of Economic Development and Trade	2.3	2.11.1
Regulated Funds (excluding trust funds):		
Motion Picture Development Fund	4.77	2.11.2
Provincial Corporations:		
Alberta Motion Picture Development Corporation	5.63	2.11.2
Alberta Opportunity Company	5.67	2.11.2
Commercial Enterprises:		
Alberta Intermodal Services Ltd.	7.24	2.11.2
EDUCATION:		
Department of Education	2.3	2.12.1
Revolving Funds:		
Education Revolving Fund	3.8	2.12.2
Regulated funds (excluding trust funds):		
School Foundation Program Fund	4.5	2.12.3
Trust Funds:		
Federal French Language Grants Fund	8.63	2.12.4
School for the Deaf Donations	8.63	2.12.4
School for the Deaf Pupils Trust	8.63	2.12.4
Teachers' Retirement Fund	8.10	2.12.4
Mildred Rowe Weston Estate Trust	8.63	2.12.4
Expo '86 Student Travel Trust Fund	8.63	2.12.4
Other:		
Northland School Division No. 61		2.12.4

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ENERGY:		
Department of Energy	2.3	2.13.1
Regulated Funds (excluding trust funds):		
Alberta Petroleum Incentives Program Fund	4.8	2.13.3
Provincial Corporations:		
Alberta Oil Sands Technology and Research Authority	5.73	2.13.2
Alberta Petroleum Marketing Commission	5.77	2.13.4
Natural Gas Pricing Agreement Act Fund	5.83	2.13.5
Natural Gas Pricing Agreement Market Development Fund	5.86	2.13.5
Take-or-pay Costs Sharing Fund	5.89	2.13.5
ENVIRONMENT:		
Department of the Environment	2.3	2.14.1
Revolving Funds:		
Water Resources Revolving Fund	3.12	2.14.2
Provincial Corporations:		
Alberta Environmental Research Trust	5.92	2.14.3
Alberta Special Waste Management Corporation	5.95	2.14.3
Environment Council of Alberta	5.98	2.14.3
Trust Funds:		
Surface Reclamation Fund	8.18	2.14.3
EXECUTIVE COUNCIL:		
Department of Executive Council	2.3	2.15.1
Provincial Corporations:		
Energy Resources Conservation Board	5.101	2.15.2
The Wild Rose Foundation	5.107	2.15.3
FEDERAL AND INTERGOVERNMENTAL AFFAIRS:		
Department of Federal and Intergovernmental Affairs	2.3	2.16.1
FORESTRY, LANDS AND WILDLIFE:		
Department of Forestry, Lands and Wildlife	2.3	2.17.1
Revolving Funds:		
Forestry, Lands and Wildlife Revolving Fund	3.15	2.17.2
Regulated Funds (excluding trust funds):		
Fish and Wildlife Trust Fund	4.77	2.17.3
Forest Development Research Trust Fund	4.11	2.17.4
Homestead Lease Loan Fund	4.77	2.17.4
HOSPITALS AND MEDICAL CARE:		
Department of Hospitals and Medical Care	2.3	2.18.1
Regulated Funds (excluding trust funds):		
Health Care Insurance Fund	4.14	2.18.2
Provincial Corporations:		
Alberta Urban Hospitals Project Management Ltd.	5.111	2.18.11

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Edmonton Area Hospital Advisory Council Fund	6.11	2.18.11
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Alberta Cancer Board		2.18.4
Alberta Children's Provincial General Hospital		2.18.5
Alberta Hospital Edmonton		2.18.11
Alberta Hospital Ponoka		2.18.6
Foothills Provincial General Hospital		2.18.7
Glenrose Rehabilitation Hospital		2.18.8
Northern Alberta Children's Hospital		2.18.11
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Alberta Cancer Foundation		3.2.2 2.18.10
Alberta Hospital Edmonton Foundation		3.2.2 2.18.10
University Hospitals Foundation		3.2.2 2.18.10
LABOUR:		
Department of Labour	2.3	2.19.1
Revolving Funds:		
Personnel Administration Revolving Fund	3.19	2.19.2
Trust Funds:		
Long Term Disability Benefit Fund	8.63	2.19.2
Long Term Disability Benefit Fund – Bargaining Unit	8.63	2.19.2
MUNICIPAL AFFAIRS:		
Department of Municipal Affairs	2.3	2.20.1
Regulated Funds (excluding trust funds):		
Alberta Planning Fund	4.18	2.20.4
Provincial Corporations:		
Alberta Mortgage and Housing Corporation	5.114	2.20.2
Trust Funds:		
Improvement Districts' Trust Account	8.20	2.20.4
Metis Population Betterment Trust Account	8.31	2.20.3
Metis Settlement Associations Grants Administration Fund	8.63	2.20.4
Metis Settlements Trust Fund	8.34	2.20.4
Special Areas Trust Account	8.37	2.20.4
PUBLIC WORKS, SUPPLY AND SERVICES:		
Department of Public Works, Supply and Services	2.3	2.21.1
Revolving Funds:		
Public Works, Supply and Services Revolving Fund	3.22	2.21.2
Trust Funds:		
Public Works, Supply and Services Security Deposits Trust Fund	8.63	2.21.2

	Page in Public Accounts	References to Observations in this report
RECREATION AND PARKS:		
Department of Recreation and Parks	2.3	2.22.1
Revolving Funds:		
Recreation and Parks Revolving Fund	3.28	2.22.4
Provincial Corporations:		
Alberta Sport Council	5.129	3.2.2 2.22.2
The Recreation, Parks and Wildlife Foundation	5.134	3.2.2 2.22.3
Trust Funds:		
International Youth Year — 1985 Trust Fund	8.63	2.22.4
1987 Western Canada Games Trust Fund	8.63	2.22.4
SOCIAL SERVICES:		
Department of Social Services	2.3	2.23.1
Trust Funds:		
Child Welfare Family Allowance Trust	8.63	2.23.2
Child Welfare Trust	8.63	2.23.2
Various Institutions Trust Accounts	8.63	2.23.2
SOLICITOR GENERAL:		
Department of the Solicitor General	2.3	2.24.1
Regulated Funds (excluding trust funds):		
Motor Vehicle Accident Claims Fund	4.21	2.24.3
Provincial Corporations:		
Alberta Racing Commission	5.138	2.24.3
Commercial Enterprises:		
Alberta Liquor Control Board	7.28	2.24.2
Trust Funds:		
Correctional Institutions Trust Accounts	8.63	2.24.3
TECHNOLOGY, RESEARCH AND TELECOMMUNICATIONS:		
Department of Technology, Research and Telecommunications	2.3	2.25.3
Provincial Corporations:		
The Alberta Educational Communications Corporation	5.143	2.25.3
Alberta Research Council	5.145	3.2.4 2.25.2
Commercial Enterprises:		
The Alberta Government Telephones Commission	7.34	2.25.1
Trust Funds:		
The Alberta Government Telephones Employees' Group Life Insurance Trust Account	8.45	2.25.3
The Alberta Government Telephones Employees' Pension and Death Benefit Fund	8.48	2.25.3
The Alta Telecom International Employees' Group Life Insurance Trust Account		2.25.3
The Alta Telecom International Employees' Pension and Death Benefit Fund		2.25.3
Other:		
Alberta Heritage Foundation for Medical Research		2.25.3

	Page in Public Accounts	References to Observations in this report	
TOURISM:			
Department of Tourism	2.3		2.26.1
TRANSPORTATION AND UTILITIES:			
Department of Transportation and Utilities	2.3		2.27.1
Revolving Funds:			
Gas Alberta Operating Fund	3.31		2.27.2
Transportation Revolving Fund	3.35		2.27.3
Regulated Funds (excluding trust funds):			
Natural Gas Rebates Fund	4.77		2.27.5
Rural Electrification Revolving Fund	4.24		2.27.4
Provincial Corporations:			
Alberta Electric Energy Marketing Agency	5.155		2.27.5
Alberta Resources Railway Corporation	5.149		2.27.5
TREASURY:			
Consolidated Financial Statements of the Province of Alberta	1.3	3.4	2.2
Financial Statements of the General Revenue Fund	2.3		2.28.1
Treasury Department	2.3		2.28.2
Revolving Funds:			
Land Purchase Fund	3.40		2.28.5
Treasury Revolving Fund	3.43		2.28.5
Regulated Funds (excluding trust funds):			
Alberta Capital Fund	4.28		2.28.5
Alberta Heritage Foundation for Medical Research Endowment Fund	4.34		2.28.5
Alberta Heritage Savings Trust Fund	4.39	3.2.3	2.28.3
Alberta Heritage Scholarship Fund	4.51		2.28.5
Alberta Provincial Corporation Loan Fund	4.56		2.28.5
Alberta Risk Management Fund	4.77		2.28.5
Farm Credit Stability Fund	4.60		2.28.5
Pension Fund	4.65		2.28.5
Small Business Term Assistance Fund	4.71		2.28.5
Utility Companies Income Tax Rebates Fund	4.77		2.28.5
Provincial Corporations:			
Alberta Municipal Financing Corporation	5.164		2.28.5
Commercial Enterprises:			
Treasury Branches Deposits Fund	7.44		2.28.4
Trust Funds:			
Bond and Coupon Accounts:			
Matured Interest	8.63		2.28.5
Unpresented Debentures	8.63		2.28.5
Consolidated Cash Investment Trust Fund	8.55		2.28.5
General Trust Account	8.59		2.28.5
Payroll Deductions Trust	8.63		2.28.5
A.L. Sifton Estate	8.63		2.28.5
Ultimate Heir Trust Fund "A"	8.63		2.28.5
Ultimate Heir Trust Fund "B"	8.63		2.28.5

B. **Entities audited pursuant to section 12(b) of the Auditor General Act**

	References to Observations in this report
ACCESS Charitable Foundation of Alberta	3.2.2 2.29.2
Alberta Children's Hospital Research Centre	2.29.2
Foothills Hospital Employees' Charity Fund	2.29.2
Foothills Hospital Foundation	3.2.2 2.29.2
Glenrose Rehabilitation Hospital Employee Benevolent Fund	2.29.2
Glenrose Rehabilitation Hospital Employee Charities Fund	2 29.2
Grande Prairie Regional College Foundation	3.2.2 2.29.2
Olds College Foundation	3.2.2 2.29.2
Sulphur Development Institute of Canada (SUDIC)	3.2.2 2.29.2
Technical Resource Centre Society for Technology and Rehabilitation	3.2.2 2.29.2
The Friends of University Hospitals	3.2.2 2.29.2
The Trustees of the Academic Staff Benefits Plans of The University of Alberta	2.29.2
University of Alberta Hospitals Employees' Benevolent Fund	2.29.2
University of Alberta Hospitals Employees' Charities Trust	2.29.2

C. **Entities audited pursuant to section 43 of the Irrigation Act**

	References to Observations in this report
Aetna Irrigation District	2.29.1
Bow River Irrigation District	2.29.1
Eastern Irrigation District	2.29.1
Leavitt Irrigation District	2.29.1
Lethbridge Northern Irrigation District	2.29.1
Macleod Irrigation District	2.29.1
Magrath Irrigation District	2.29.1
Mountain View Irrigation District	2.29.1
Raymond Irrigation District	2.29.1
Ross Creek Irrigation District	2.29.1
St. Mary River Irrigation District	2.29.1
Taber Irrigation District	2.29.1
United Irrigation District	2.29.1
Western Irrigation District	2.29.1

D. **Crown-controlled organizations audited other than by the Auditor General**

	References to Observations in this report
North West Trust Company	2.30.1
354713 Alberta Ltd.	2.30.1

APPENDIX II

AUDITOR GENERAL ACT

CHAPTER A-49

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) "Crown-controlled organization" means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

September 1, 1983

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so

appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

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(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the pub-

lic interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explan-

ations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

1977 c56 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

1977 c56 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

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(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the

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Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend

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the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30